

**"A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF PRECOT
MERIDIAN LIMITED FOR THE YEAR 2007"**

By

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Of

Department of Management Studies

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A PROJECT REPORT

Submitted to the

FACULTY OF MANAGEMENT STUDIES

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for the award of the degree

Of

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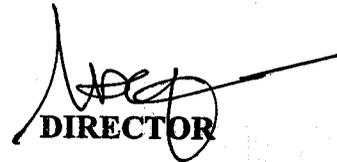


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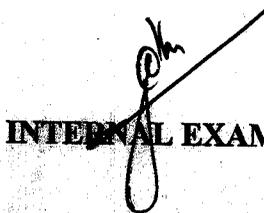
BONAFIDE CERTIFICATE

Certified that this project report titled “**A Study on financial performance analysis of Pricot Meridian Limited for the year 2007**” is the bonafide work of Miss. Soundarya.k (Reg No. 71206631054), who carried this research under my supervision. Certified further that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.


PROJECT GUIDE


DIRECTOR

Evaluated and Viva Voce conducted on 29.10.07


INTERNAL EXAMINER


EXTERNAL

DECLARATION

I, hereby declare that this project report entitled as "A Study on financial performance analysis of Precot Meridian Limited for the year 2007" has been undertaken for academic purpose submitted to Anna University in partial fulfillment of the requirements for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of Prof. N. Jothilingam, Professor, KCT Business School during the academic year 2007 – 2008.

I, also declare hereby, that the information given in this report is correct to best of my knowledge and belief.

Date: 29.10.07

Place: Coimbatore



SOUNDARYA.K

(06MBA54)



PM/HRD
31 07 07

CERTIFICATE

This is to certify that Ms.KSoundarya, student of 1st Year MBA from KCT Business School, Kumaraguru College of Technology, has done Industry Project in our unit from 19 06 07 to 31 07 07, as partial fulfilment of her Education.

During the above period, her conduct and character were good.

For PRECOT MERIDIAN LIMITED,

A handwritten signature in black ink, appearing to read 'M. Nagarajan', written over a horizontal line.

M.Nagarajan

HRD MANAGER

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The analysis covers the financial year 2006 and 2007 of Precot Meridian Limited. There are different parties for whom knowing of the financial position of a concern is crucial for different purposes. The supplier of goods on credit, banks, financial institutions, investors, share holders use the analysis for the purpose of granting credit avoiding loans or making investment in the firm. With four decades of spinning experience and a diverse range of products that include cotton yarns, sewing threads, fabrics and garments; Precot is one of the few totally integrated textile players with a total turnover of 90 million US Dollars. The financial performance is measured using working capital assessment, ratio analysis and market capitalisation of the company. Sufficient working capital enables a business to make prompt payments and hence help in creating and maintaining good will and avail cash discounts on the purchases and hence it reduces cost. Ratio analysis is used as a device to analyze and interpret the financial health of enterprise. Market capitalization helps in knowing the company's position in the market. Primary data was collected by the direct contact with the officers and managers in the financial department of the company. Sources of secondary data are the website of the company and its annual reports. In all the company has a very strong liquidity position. With the evidence of activity ratios it is found that the average collection period is higher than the average payment period. Thus the company has to contribute more working capital to the extent of covering 50 day's working capital. The debt of the company is 0.56% above the tolerable limit. The funded debt to capitalization ratio is below the tolerable limit by 0.02%. The solvency position of the company is good since the total assets are 39% in excess of total liabilities. The cash ratio of the company is not confining to the acceptable limit. To compensate this, the company has to concentrate on cash at bank and marketable securities or temporary investments. If the firm desires to reduce its working capital requirements with out affecting the production cycle it can try balancing the collection and payment period. The funded debt to capitalization ratio is 0.02% below the tolerable limit. In order to have a good long term financial position and since funded debt is risky the company can convert it to equity.

ACKNOWLEDGEMENT

ACKNOWLEDGEMENT

I express my sincere gratitude to our beloved Correspondent Prof. Dr. K. Arumugam, the prime guiding spirit of Kumaraguru College of Technology.

I extend my heart felt thanks to Principal Dr. Joseph V. Thanikal, Kumaraguru College of Technology, Coimbatore for providing facilities to do this project.

I express my sincere gratitude and thanks to our Director Dr. S. V. Devanathan for permitting me to carry out this project.

I endeavor my sincere gratitude towards my guiding spirit Prof. Col. Prof. N. Jothilingam, who has given me all the guidance throughout this project.

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Specially, I would like to thank Mr. A. Jaganathan, Managing director of Precot Meridian Limited.

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CHAPTER-1

CHAPTER-1

INTRODUCTION

1.1 BACKGROUND OF STUDY:

The financial performance is measured using working capital assessment, ratio analysis and market capitalization of the company. Working capital is the life blood and nerve center of a business. Assessment of adequate working capital helps in maintaining solvency of the business by providing uninterrupted flow of production. Sufficient working capital enables a business to

- Make prompt payments and hence help in creating and maintaining good will.
- Avail cash discounts on the purchases and hence it reduces cost.
- Regular supply of raw materials and continuous production.
- Face business crisis in emergencies such as depression because during such periods, generally, there is much pressure on working capital

Ratio analysis is one of the most powerful tools of financial analysis. It is used as a device to analyze and interpret the financial health of enterprise. A financial analyst analyses the financial statements with various tools of analysis before commenting upon the financial health or weaknesses of an enterprise. Market capitalization helps in knowing the company's position in the market. The market value of the company's share is ascertained.

1.2 REVIEW OF LITERATURE

DETERMINANTS OF FINANCIAL PERFORMANCE ANALYSIS

Noel copon, graduate from School of Business, Colombia university New York 10021, John U. Farley graduate from School of Business, Colombia university, New York 10021, & Scot Hoeing, graduate from School of Business administration, Fordham university say that

Reviews of the financial performance literature, while often quite rich and comprehensive, have tended to be qualitative in nature. Quantitative comparison of results from different studies is difficult, principally because model specifications and definitions of explanatory and dependent variables differ widely. Estimation techniques, ranging from simple cross tables to causal models, also differ widely over time. The lack of systematic replication to help quantify specific effects of independent variables in a wide number of situations. Researchers are of course

various streams of literature in which a series of results tends to highly inter correlated. Financial statement analysis is largely a study of the relationship among the various financial factors in a business. Analysis and interpretation of financial statement refers to such a treatment of the information contained in the income statement and balance sheet so as to find the profitability and financial soundness of the business.

The term "analysis means classification of a data given the financial statement"
"financial analysis means interpretation of the financial statement of the company".

In other words "financial analysis is an intelligent study of the balance sheet and profit and loss account of a concern with a view of judging its financial position"

According to the AICPA (American institute of certified public accountant) "financial statements are prepared for the purpose of presenting a periodical review on the progress by the management and deal with the status of investment in the business and The results achieved during the period under review. The profit and loss account presents the summary of revenues, expenses and net income or net loss of a firm of a specific period of time. 'net income' is an indicator of the firm's profitable operation where the income earned during the period exceeds the expenses incurred during the period the surplus is the 'net income or profit on the other hand, If the total expenses of incomes and expenses incurred to learn that incomes made in the statement and the difference between the two is known as net profit or net loss.

The balance sheet compares the list of assets , liabilities and capital fund at a given date. It set forth the financial condition of a business concern as reversed by the accounting records. It reflects the assets owned by the concern and the source of funds (from creditors and owners) used in the acquisition of those assets it is prepared in such a way the true financial position is revealed in a form easily readable and understandable that would be possible from a study of the details contained in the records prepared during the currency of the financial period thus , " balance sheet is only historic rather than prophetic;" books of accounts and financial statement are not prepared for the purpose of prophecy the fact is " business is dynamic while balance sheet is static". It records only periodic changes rather than continuous ones.

**Peter Frumkin, Assistant Professor of Public Policy, Kennedy School of Government
Harvard University say**

The fundamental reason for nonprofit financial performance assessment is to determine how well an organization is fulfilling its mission. The financial numbers alone cannot answer this question, but they can provide insight into the sources of funding, the cost of service delivery, and an organization's ability to operate in the future.

Over the past decade, a second reason for conducting financial performance analyses of nonprofits has emerged. Several major financial scandals have rocked the nonprofit world, including embezzlement by the president of the United Way of America for (Murawski 1995) investment fraud by the head of the Foundation for New Era Philanthropy for perpetrating (Stecklow 1997), theft by leaders of the Episcopal and Baptist churches (Greene 1995; Fletcher 1999), improper use of funds by the head of the National Association for the Advancement of Colored People (NAACP) (Greene 1995), and excessively generous compensation of the president of Adelphi University due to an (Thornburg 1997). In the past decade, the issue of the non-profit financial reporting and accountability of the nonprofit sector has surfaced, including the adequacy of the current reporting and oversight mechanisms. Given these issues, we argue that the nonprofit community's future economic success depends not only on the quality of its social and economic activities, but also on improving the way it measures its work and communicates these results to the sector multiple and diverse stakeholders. This report is designed to help participants in the nonprofit sector better address two issues:

- How should nonprofit financial performance be assessed?
- How can information about financial performance be made accessible to and usable by the multiple stakeholders in nonprofit organizations?

1.3 OBJECTIVES OF STUDY:

- To study the financial performance of Precot Meridian Limited.
- To understand the liquidity, long-term solvency and profitability position of the concern.
- To apply the theoretical concepts of ratio analysis, market capitalisation and working capital management in a practical situation.
- To draw recommendations for the benefit of the managing authorities of the company.

1.4 SCOPE OF THE STUDY

The analysis covers the financial year 2006 -2007 of Precot Meridian Limited. The data used for performing the analysis represents organization as a whole and not its subsidiary companies alone. The analysis is not only confined to financial managers. There are different parties for whom knowing of the financial position of a concern is crucial for different purposes. The supplier of goods on credit, banks, financial institutions, investors, share holders use the analysis for the purpose of granting credit avoiding loans or making investment in the firm.

1.5 METHODOLOGY:

1.5.1 TYPE OF DATA USED:

The study involves both the primary and secondary data. Primary data was collected by the direct contact with the officers and managers in the financial department of the company. Sources of secondary data are the website of the company and its annual reports.

1.5.2 TOOLS FOR ANALYSIS OF STUDY:

- Statement showing changes in capital.
- Ratio analysis
- Market capitalisation

1.5.3 TYPE OF STUDY:

The study analysis is descriptive in nature

1.6 LIMITATIONS:

- The period of study is limited to one year.
- The dependability on the primary data is limited since the finance department had difficulty in releasing the complete data.
- Comparative analysis was not possible because of the recent merging of the company with Meridian limited

1.7 CHAPTER SCHEME:

Chapter 1: Introduction

The first chapter deals with the background, objectives, scope of the study, methodology used in data collection, limitations of the study and brief introduction of all the chapters.

Chapter 2: Organization Profile

The organization profile includes details on the history of the organization, management and organization structure, product profile and a brief description on various functional areas of the organization.

Chapter 3: Macro-Micro Economic Analysis

Macro-Micro analysis deals with the prevailing scenario of the organization with respect to its respective industry.

Chapter 4: Data analysis and Interpretation

The chapter mainly deals with various analysis using financial tools, viz working capital assessment, ratio analysis, and market capitalisation to analyze the financial position of the concern

Chapter 5: Conclusion

This includes the results and the discussions regarding the performance of the company for the year 2007. Recommendations to improve the performance of the company are also given.

CHAPTER-2

ORGANISATIONAL PROFILE.

2.1 HISTORY:

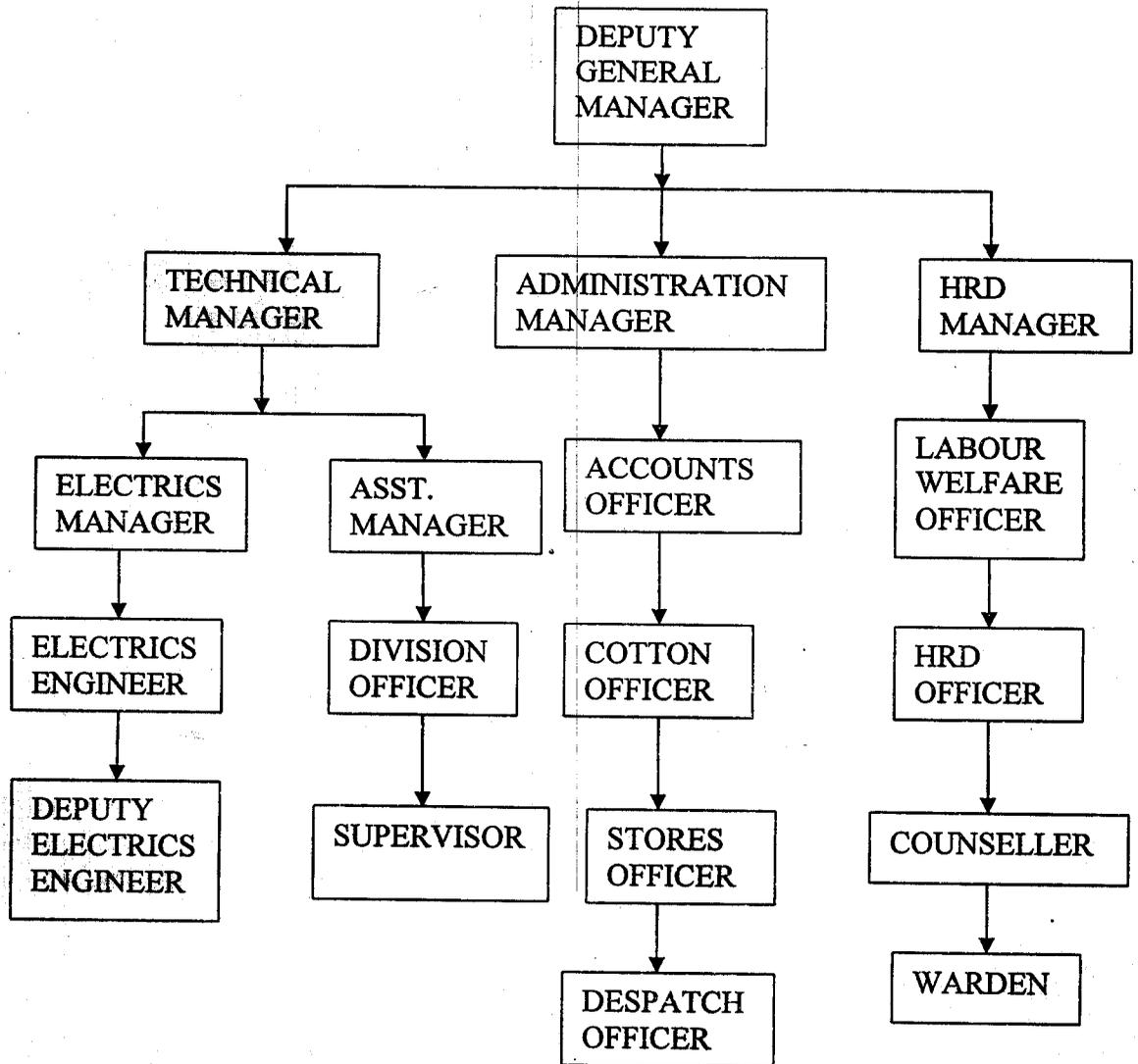
Established in 1962, Precot has symbolized quality and trust in the textile industry. With four decades of spinning experience and a diverse range of products that include cotton yarns, sewing threads, fabrics and garments. Precot is one of the few totally integrated textile players with a total turnover of 90 million US Dollars. The Group has state of the art infrastructure facilities and skilled personnel to rise up to customer expectations.

2.2 MANAGEMENT:

BOARD OF DIRECTORS:

- Sri A Ramkrishna
- Sri Jairam Varadaraj
- Sri C N Srivatsan
- Sri Sumanth Ramamurthi
- Sri Vijay Mohan
- Sri Vijay Venkataswamy
- Sri Suresh Jagannathan
- Sri M V Subramani.

2.3 ORGANISATIONAL STRUCTURE



2.4 PRODUCTS PROFILE:

COMBED COTTON YARN:

- Knitting and Weaving : Ne. 20/1 to 50/1
- P/C Blends and Modal/Cotton Blends:
- Doubled yarn on TFO: Ne.50/2,56/2,66/2,74/2, 80/2, 94/2, 100/2
- Gassed yarn: Ne.40/2 to 100/2
- Compact spun yarn for Weaving
- Eli twist yarn for Weaving & Hosiery
- OE yarn 2's - 10's

POLYESTER SEWING THREADS ON TFO:

- Bulk cones Raw White & Dyed
- Mini cones 5,000 meters
- Ne.30/2, 30/3, 40/2, 40/3 & 60/3

Yarn dyed shirting fabrics under the brand 'GARTIKA'.

Count Range: 40's to 80's and 2/40's to 2/100's

Design's: Checks, Pin Stripes, Chambrey, Fil-a-Fil (upto 8 colours in weft)

Weave: Plain, Dobby, Oxford, Twill, Drill, Honey Comb

Finishes: Mercerised, Wrinkle Free, Micro bounce, Easy to Iron, Soil Repellant, Mosquito Repellant, Vitamin E, anti Bacterial.

2.5 ABOUT THE COMPANY:

The group has been accorded the status of 'Export House' by The Cotton Textile Export Promotion Council of India (TEXPROCIL). The countries they export their products are **Belgium, China, Italy, Japan, Malaysia, Portugal, South Korea, Turkey and U.K**

QUALITY SYSTEMS:

- All the group companies are ISO 9001: 2000 certified and in the process of implementing TQM.
- Foundation has been laid in all the units for TQM by implementing '5S' methods of house keeping and 3M methods to control wastage of resources.

QUALITY CONTROL EQUIPMENTS:

- State-of-the-Art fiber and yarn testing instruments like HVI, AFIS, UT4 evenness tester and Tenaxmar

INFRASTRUCTURE FOR COMMUNICATION:

- All manufacturing units are linked to each other and the corporate office by Radio link to ensure free-flow of communication.

ENTERPRISE RESOURCE PLANNING:

- The entire process of manufacturing, logistics & accounting is fully integrated by ERP solutions of SAP.

MAIN BANKERS:

- Andhra Bank
- Bank of Nova Scotia
- Citibank
- HDFC Bank
- ICICI Bank
- State of India
- BNP Paribas

MILL LOCATIONS:

A Unit: Kanjikode, Palakad, Kerala

B Unit: Kodigenahalli, Hindupur, Andhra Pradesh

M Unit: Nanjegundenpudur, Pollachi, Tamilnadu

C & D Unit: Chandrapuram, Valayar, Kerala

K Unit: Gowribidnur, Kolar, Karnataka

Weaving Unit: Vettaikaranpudur, Tamilnadu

Dyeing Unit: Perundurai, Tamilnadu

REGISTERED OFFICE:

SUPREM

7161, 737 Green Fields

Puliakulam Road

Coimbatore 641045

E-Mail: secretary@precot.com

2.6 DESCRIPTION OF VARIOUS FUNCTIONAL AREAS:

PRODUCTION DEPARTMENT:

The main function of the production department is to convert the ginned cotton into yarn of high quality.

The production process:

Mixing:

Cotton of various varieties like LRA, MECH and MCV-5 etc are first tested by Statistical Quality Control department and then mixed according to the mixing ratio. The mixture is then sent to the blow room.

Blow Room:

Impurities (45% of waste) are removed from the mixture and the output is called as lap i.e. a sheet of cotton. Each lap weighs 20 kgs.

Carding:

The purpose of carding is fiber individualization by cleaning the lap.

Silver Lap:

The silver laps are fed into the machine and certain amount of dust is removed. The input to this machine is 6 laps.

Super lap and combing:

In this process, short fibers are removed from the rolls.

Drawing:

The purpose of drawing is doubling eight silver and drifting the same into one silver with standard unit length and weight.

Cone winding:

The yarn produced is fed into the cone winding machine. The output of this process is final stage in the production process.

Inspection and Quality control:

To maintain a good quality of the final product, raw materials are also inspected and tested for quality.

Inspection during process

The cotton from carding is taken to check the micro value.

Final inspection:

Ultimately, all the cones are manually inspected and if there is any fault, the cones are sent for rewinding purpose.

Packing:

The cones are packed in sack bags in order to avoid damage to the yarn.

Stores department:

The materials are stored in the stores department using Bin cards in order to meet the needs of the production department. The materials stored are for

- Mill store maintenance
- Building maintenance
- Textile machine maintenance
- Humidification plant maintenance
- Electrical plant machine maintenance
- Purchase of packing material
- Printing and stationery

Time Office department

The functions of the time office department are

- Renewing the factory license, every year.
- Revising the stability certificate every three years.
- Administering the employees of the organization
- Maintaining payment registers
- Maintaining the shift and attendance register.

Accounts department:

The Accounts department is responsible for written statement of financial position.

Internal auditing is carried out in an exhaustive manner. The functions include:

- Making entry of all the transactions.
- Overseeing the accounting functions and periodical compilation of unit wise accounts.

CHAPTER-3

CHAPTER-3

MICRO-MACRO ANALYSIS

MACRO ANALYSIS OF TEXTILE INDUSTRY

India is replete with natural resources like cotton, jute and silk. Indian products were known for fine designing, embellishment and craft. Besides this the ancient Indian fabric designers and weavers were one of the best in the world (Reference: The Dhaka Muslin- one of finest and light weight weaving that could pass through a finger ring)

Indian textile Industry is also largest employer (after agriculture) of workers directly and indirectly. Due to ethnic diversity and cultural multiplicity besides racial traces in India's hinterland, several designs and variety of costumes and apparels are used that enrich Indian textile garments design possibilities.

Industry plays significant role by contribution of 4% of GDP and 20% to the Indian exports kitty. Indian textile Industry is completely self reliant in the entire value-chain from cotton crop to Hi-fashion garment making.

India has around 40 Million Spindles (23% of world) and 0.5 million rotors (6% of world capacity). India has 1.8 Million Shuttle looms (45% of world capacity), 0.02 Million shuttle less looms (3% of world capacity) and 3.90 Million handlooms (85 % of world capacity). The Industry is highly fragmented except for spinning sub-sector and thus manually intensive. This is obvious from data of weaving sector mentioned above. Organized sector contributes to almost 100% of spinning but hardly 5 % of weaving of fabric. Cotton products are stronghold of India. As of March 2004 India had 1787 cotton/man made fiber textile mills including 1564 spinning mills (stand alone) and 223 Composite verticals. Many organized sector giants are actually conglomerates of medium sized mills, for example, Vardhman Group in Punjab.

The Indian textile Industry had been plagued by obsolescence, labor problems, raw material vagaries and lack of modernization including that of spindles. The post fabric stage processing technology has also been lagging but is now coming up fast with infusion of textile processing technology. SSI firms perform the majority of weaving and

knitting units don't possess capacity to perform dyeing, processing and finishing to international standards.

The apparel sector has over 25000 domestic manufacturers, 48,000 fabricators and around 4000 manufacturers/exporters. Over 80% of these are small operations (less than 20 machines) and are proprietorship or partnership firms. In 2001, GOI de-notified RMC products from SSI reservation list for obvious reasons. **As stated before, cotton apparel constitute major part of India's apparel exports, although cotton appears to be out of thing in current global markets with share declining from 50% in 1982 to 38% in 2003.** The export product mix of India is quite interesting with low and mid priced products and also high fashion items.

India processed 1900 million kgs of jute fiber at 1st rank, 15 million kgs of raw silk at 2nd rank, 2700 Million Kgs of cotton fiber at 3rd rank, over 2000 million Kgs of man made fiber at 5th rank, and finally 51 million kgs of wool at 8th Rank in Global markets.

After de-throttling of industry under new **Textile policy of 1985** man made fiber industry has seen investments and scale economies coming up. India imports silk, fine quality wool and rags to feed its organized sector as well as shoddy yarn units. Most of woollen capacity is concentrated in North India.

Export Scenario:

Textiles contributed 20% of India's exports to about **US \$ 12.5 Billion**. The Quota Countries mainly USA, EU (15) and Canada constituted 70 % of total garment exports and 40% of India's textiles exports.

In non-quota countries UAE is the largest market with 7% of textile exports and 10% of garment exports from India.

Table 1**India's Exports: in US \$ Billions Year 2003-04**

Countries/Region	Export of Textiles	Export of garments
World	6.47	6.10
Quota Countries	2.86	4.19
EU	1.64	2.35
USA	1.12	1.60
Canada	.098	.239
<i>Source: DGCIS-Calcutta</i>		

In exports Cotton yarns, fabric, made ups etc made largest chunk with US\$ 3.33 Billion or 26.5% in textiles category, and Ready Made garments (RMG)-cotton including accessories made largest chunk with 4.67 Billion US \$ or 37.1 % of total exports. Whereas, manmade yarn and fabrics in **textiles group** and RMG-Man made fibers constituted second position in the two categories, respectively. Carpets and woolen garments are other items exported from India.

In Global scenario

Developed countries' exports declined from **52.2% share in 1990 to 37.8 % in 2002** And that of developing countries increased from **47.8% to 62.2 % in the same period** **In 2003 the exports figures in percentage of the world trade in Textiles Group (for select countries) were:**

EU 34.8%

USA 6.4%

Japan 3.8%

China 15.9%

Republic

Korea 6.0%

Taipei 5.5%

Pakistan	3.4%
Turkey	3.1%
Mexico	1.2%

In Clothing Sector the figures were as below in 2003 in percentage of total exports globally:

EU	26.5%
USA	2.5%
China	23.0%
Turkey	4.4%
Mexico	3.2%
India	2.9%
Bangladesh	1.9%

In this sector the exports have declined for EU (15) from 42% to 26.5% in period 1980-2003 whereas of China increased from 4% to 23% and of India from 1.7% to 2.9% only. We can see that developing countries' share in textiles had declined and **in clothing it has increased sharply**

According to Dr Abdul Kalam the President of India, in a recent speech, the global competitiveness factors are **cost, quality and timely deliveries**. Indian textile Industry certainly does not measure up to these criteria.

To enhance competitiveness both categories of factors-**Internal**-like productivity and technology adoption by individual units, and **External** -like fiscal policy measures, labor policies and infrastructure are important factors to improve in.

Though India stands second to China in cotton yarn and fabrics, the productivity of cotton as measured by yield/Hectare is lowest compared to Brazil, Turkey, China, Pakistan and USA with Turkey ranking highest followed by China and Brazil.

Global trade in Textiles and clothing has moved from MFA (since 1974) to ATC (Agreement on Textile and Clothing) which has now been dismantled from 1st Jan

will result in adverse effect on some countries and will benefit other countries like **China and India**, hopefully, as some of quota areas for USA imports like Caribbean Basin Initiative (CBI), North American Free Trade Area (NAFTA), African growth and Opportunity Act (AGOA) and ANDEAN countries will cease to get favorable treatment under earlier restrained quota regime. The US imports in restrained category has declined from 86.89% in 1990 to 69.38% in 2003 from these preferential countries while overall imports increased from 13.11 % to 30.19% from these countries.

Pattern in EU Market:

India's share in EU imports in textiles was 3.6% in 2003 and of clothing 3.0% in same year. Whereas major chunk of EU imports in both categories came from EU (15) themselves and C/E Europe, the leading exporter is clearly **China with share of 5.3% in textiles and 12.2 % in clothing.** Turkey and Romania are other stronger contenders to India in EU cake. Pakistan and Bangladesh are following, but Bangladesh, Sri Lanka and some African countries may loose out post ATC liquidation. Here lies opportunity for India. India has been leading supplier of cotton yarn to EU with 17.6% share in 2003 up from 8.4% figure in 1990. **In fabrics woven from synthetic yarns China has moved up fast in EU markets from 0.5% in 1990 to 35% share in 2003.**

In T shirts- Turkey was clear leader in EU with market share of 30% in 2003 followed by Bangladesh at 13.8%. **In pullovers** also these two countries were leading. **In trousers** worth noting countries in EU market were Turkey (16%) followed by Tunisia (11%), Romania (10%), Morocco and Bangladesh (9%) each.

Bangladesh has thus improved its market share in many items thanks to its low cost operations. For example, in trousers it was **Euro 3.9 unit price** as compared to **Euro 11 per unit from Tunisia.**

In women's blouses in EU market Turkey and India each had 14.5% share (**India loosing out**) while Romania increasing share to 13.2 %. Hong Kong and China next followed with 8% and 4% share respectively in 2003. India had better unit price of **Euro 3.90** as compared to **Euro 2.43 for Bangladesh.**

In Men's shirts Bangladesh was leading with 14.5% share in 2003 followed by India, Romania, Turkey and Hong Kong. Bangladesh had cheapest unit Price at **Euro 2.7**.

Again China was leading supplier in Women's skirts with 23.3% share (increased). Next was Romania, and India stood at 5th place with 6.4% market share (**actually contracted**).

China was again leading in women's Suits with **41%** market share in 2003.

The **newly acceded EU (10) countries** (called ACs) like Poland, Czech republic, Hungary and Slovakia hitherto enjoyed **unrestricted access** to EU (15) they will now face stiff competition from China and India. The EU (25) duties may increase in future and **China and India may loose GSP status. In long run India may not face competition from these ACs but from other GSP suppliers.**

Pattern in US Market:

In US Market India had share of 8.4% in textiles and only 3.2 % in Clothing in year 2003 as compared to 19.8% and 16.9 % respectively for China with EU, China, Canada and Mexico leading the scene in **textiles imports** in USA and Hong Kong and Vietnam joining the fray in **clothing segment**. It is worth noting that India has **increased its share in US market in Cotton pile towels from 3.5% in 1990 to 19% in 2003 but unit price is US \$ 1.82 only as compared to \$ 2.98 for China. It is seen that in both EU and US markets Indian unit prices are lower than China except for fabrics woven from synthetic filament yarn and the women's skirts. In cotton skirts and women's dresses Indian price realization is sharply lower than Chinese. This points to need for value addition. Another reason has been discrimination by EU and US with Indian exporters in past.**

Developed countries treat textiles/clothing as sensitive items like agriculture and have been reluctant to bring down tariffs. In the pre Uruguay Round weighted average tariff for textile and clothing products was 15.5 % compared to 6.3% for all Industrial products taken together. While tariff on textiles and clothing is expected to be reduced by 22% by developed countries, the reduction for other industrial products is likely to be 46%.

Besides tariff barrier the Developed countries try to put non-tariff barriers like labor

countries removed restrictions on low value items sparing major products for stage 4-integration (90% of quota items of USA, 80% of EU and over 70% of quota items in Canada). This fourth stage has come into effect with 1st January 2005(Source-Textile Outlook International, March –April 2004)

The unilateral change in definition and classification of certain products by USA has been brought to the notice of Textile Monitoring Body (TMB) of WTO by India, on behalf of members of International Textiles and Clothing Bureau (ITCB) recently in July 2004. India pointed out that the move initiated by USA to include Made-up items with only 16% cotton content, in the category of cotton products, so as to extend stringent Rules of Origin established by USA for cotton imports, affected the prospects of exports of cotton made-ups by developing countries, like India.

Safeguard measures are easier to implement than anti-dumping measures and China and India projected as major gainers post-MFA may be adversely affected by such moves. **Cost of Production:**

Cost of production of textiles yarns and fabrics is much higher in India despite low labor rates. We should not forget that India will also lose this advantage over time in as much as ACs (EU-10) are likely to lose the same over a period of time in EU market access.

Production cost of textured yarn is estimated to be US \$ 2.06/kg in India, which is higher than that of China (US\$ 1.40/kg) and Brazil (\$ 1.90 /kg)

Similarly woven and knitted textured yarn production cost in India is higher than that of China, Brazil and South Korea. These costs include power cost that is higher in India besides low productivity, obsolescence and structural abnormalities.

Hourly wage cost in textiles in select countries (US \$):

Switzerland	22.15
USA	14.24
Argentina	5.90
Brazil	3.20
Turkey	2.69

Mexico	2.20
Mauritius	1.47
China	0.69
India	0.58
Pakistan	0.37

The message is clear-the labor productivity; power and other costs are higher in India.

Percentage share of capital costs too was higher in India than china in both Ring and OE yarn and fabric production (India 20%-29% of total cost of production) as compared to China (12% to 26%)

Level of Integration

Very few exporters have gone in for integrated production facility. It has been noted that countries that are globally competitive are the ones with significant integration facility and consolidated supply-chain. A visit to Ludhiana, Gujarat and Coimbatore will display poor condition of Indian textile industry both in cotton and woolen sectors. This decentralized sector has been suffering from low productivity, old technology, and lack of scale of economies.

That is why GOI de-reserved the garment industry and our RMG units will have to set up integrated manufacturing facilities. India should also embark on textile processing facilities (Post fabric and garment production) of world-class level.

Indian textile and clothing industry has one of most complex, fragmented and long supply chain in the world right from raw material procurement to shipping port handling facilities. The average manufacturing and delivery lead time from fabric buying to shipment of apparels comes to 45-60 days and in most cases can extend to 80 days. The mean delay in procurement of raw materials for garments and then exporting finished garments from India is estimated to be 15.5 days. Since shelf life of fashion driven products is hardly 45 days, such delays are unbecome. In contrast Turkey has flat 30 days cycle from approval of design to delivery in warehouse. Turkey is also strategically located for EU markets and has a favorable liberal political climate.

It won't be out of place for some Indian exporters to locate facilities in Mexico, Turkey, Maldives and Mauritius. Sri Lanka and Bangladesh are likely to be losers in post AT scenario, in longer time horizon.

According to AEPC member database of garment units in India, there are only few companies with high turnover, whereas over 1000 firms are with a turnover of less than Rs 100 Million and, similar is the situation in fabrics.

India has low competitive position with regards to availability and price of cotton (good quality), low level of technology, poor automation, and lack of scale economies in weaving and processing sector, and low brand image in textile garment sector

Strategies for Indian Exports

Quota free market means competition amongst firms and not nations. Quotas have frozen the growth in market share. They encouraged the high cost domestic industry in many textile-importing countries by freezing the market share. Even the high cost exporting countries (Hong Kong, South Korea, Taiwan) continued to have high market share taking advantage of quotas. Quotas also assured fixed market opportunities in early years to Indian garment industry and textile industry despite low productivity, poor time delivery and quality. Number of incentives was provided in India including Duty drawback and cash compensatory support. Garment quotas are distributed by AEPC based on Government policy from time to time regarding past performance, etc and quotas were traded in gray market for long time.

This is in sharp contrast to world-class manufacturing and supply chain tried by some units in Europe and USA in online transmission of high sale garment designs in departmental stores and replenishing the sold stocks quickly through a very low delivery cycle.

Where as Indian domestic market shall hot up by entry of both retailing chains in India (FDI has been now permitted up to 51% in single brand stores) and Outsourcing centers for international chains like Wal-Mart, the Indian exporters will get on one hand newer opportunities to enter restrained markets, while on other hand they will face stiff competition from countries like Turkey, Brazil, Mexico, Korea, China, Tunisia, Romania,

Quotas by restricting market supply have also kept the export prices artificially high. **There is bound to be a price war in post quota regime.** Already it has started happening with Indian exporters (at least for price elastic goods). Developed countries have relocated facilities offshore or have shifted to high value products. Developing countries that were free from MFA restraints will loose out due to fall in prices.

The Indian textile and clothing Industry except for cotton yarn sector should test waters within domestic markets to establish their global competitiveness and consumer acceptance.

Developed countries and many other countries are trying to extend quotas up to end of 2007 as evident from Istanbul declaration in March 2004. USA is developing a DNA marker system to trace the fabric origin. The technology can identify the US produced cotton yarn and check illegal textile imports.

Global trade is expected to be in range of US \$ 800 Billions in 2014 up from US \$ 350 Billion in 2002 with share of textiles at 40% and clothing at 60%

According to some studies China and India will be major gainers. India could increase their share from present 8 % in US textile market to 13.5% and from 3% to 8% in US Garment market. For EU the projections are from 3.6 to 8% and 3% to 8 % in textiles and garment sectors.

As on date China has distinct advantage in terms of supply chain management, low cost and better designs.

Whereas Morgan Stanley has projected India to be one of top three exporters of textile and garments, another study by Indian Cotton Mills Federation has estimated Indian textile exports to reach US \$ 40 Billion by 2010.

GOI on other hand has projected exports to double from US \$12 Billion to 25 Billion in next couple of years and eventually to US \$ 50 Billion by 2010.

Whereas new buying season starting Jan 2005 already has seen demands for 10-15% price reduction by the importers.

China lacks capability in value addition and fashion design. India stands to gain in ladies blouses because of strength in hand-works, like embroidery, sequins, printing etc. On the other hand China has clear advantage in Nightwear due to large capacity and lower costs. Therefore, while China will focus on low value high volume capabilities, India should gain through fashion content. India will also be favorite destination as alternative source other than China for major retailers globally. India can emerge as good outsourcing center for EU and US giants.

Another important factor is under valuation of Chinese currency by at east 20% vis-à-vis Dollar. China may retain their operations in Sri Lanka, Cambodia and Vietnam due to low costs prevailing there, when china set up facilities there for taking quota advantage.

Chinese Imports subject to US Safeguard Measures

Item Code	products
222	Knitted fabrics
350	Dressing gowns and negligee -cotton
650	Above from man made fibers
349	Brassieres, corsets and girdles from cotton
649	<u>Above from man made fibers</u>

USA and EU can use similar safeguards in other cases too.

Internationally, trading in textile and garment sector is concentrated in the hands of large retail firms. Majority of them are looking for few vendors with bulk orders and hence opting for **vertically integrated companies**. Thus, there is need for integrating the operations in India also, from spinning to garment making, to gain their attention. This would also bring down the turn around time and improve quality. Indian players should also improve upon their soft skills, viz., design capabilities, textile technology, management and negotiating skills.

Garment manufacturing business is order driven. It would be difficult for the players to keep the workforce full time, even in lean season. This calls for changes in contract labor laws.

Quotas by restricting market. **There is bound to be a price premium** with Indian exporters (at least) facilities offshore or have sales free from MFA restraints with

The Indian textile and clothing within domestic markets acceptance.

Developed countries and market 2007 as evident from Istanbul marker system to trace the cotton yarn and check illegal

Global trade is expected to reach 1.5 Billion in 2002 with share

According to some studies their share from present 8 Garment market. For EU the garment sectors.

As on date China has distorted and better designs.

Whereas Morgan Stanley has garments, another study by exports to reach US \$ 40 Billion

GOI on other hand has proposed next couple of years and even

Whereas new buying season price reduction by the import

To offset competitive disadvantage Indian industry will have to expand vertically and set up scale of economies units while grappling with infrastructure bottlenecks and high cost limited power availability.

The main factors identified in a study by Ramaswamy and Gereffi as having contributed to the globalization of world apparel industry includes:

- Labor intensive nature of apparel industry
- Loss of comparative cost advantage of developed countries
- Dramatic decline in transport and communication costs
- Search for production sites with lower labor costs
- Shift in apparel manufacturing from more restricted to less restricted developing countries due to the discriminatory nature of restrictions imposed by erstwhile MFA (Multi Fiber Agreement 1974)

Another strategy Indian exporters and garment manufacturers can adopt is coming together privately or through State sponsored agencies to do joint Brand marketing. If not done early, then MNC retailing organizations will hijack the Indian garment Industry initiative and India may simply get reduced to outsourcing center for major textiles and Garment exports, although there is nothing serious about it, **but India may well loose status of being independent India Brand garment exporter with higher value realization to the national exchequer.**

It is estimated that industry would require Rs 1000 billion investment as new capital over the next five years.

While Indian exports to the US has risen 22 per cent in the first quarter of 2005, profits are sliding as prices have dropped 8-20 per cent and the industry is on the verge of a shakeout. With retailers preferring suppliers that have 'vertical' production systems rather than dispersed production facilities, Indian exporters need to shore up their mass production capabilities. Of the 1,500 Indian exporters, only 15 have turnovers of \$50 million-plus. In China, power and water contribute to nearly 37 per cent of the total production cost. In China, this cost comprises just 24 per cent.

The key advantages of the Indian industry are :

- * India is the third largest producer of cotton with the largest area under cotton cultivation in the world. It has an edge in low cost cotton sourcing compared to other countries.
- * Average wage rates in India are 50-60 per cent lower than that in developed countries, thus enabling India to benefit from global outsourcing trends in labor intensive businesses such as garments and home textiles.
- * Design and fashion capabilities are key strengths that will enable Indian players to strengthen their relationships with global retailers and score over their Chinese competitors. This is also visible in auto sector and many other industries like IT and software and Pharma research.
- * Production facilities are available across the textile value chain, from spinning to garments manufacturing. The industry is investing in technology and increasing its capacities, which should prove a major asset in the years to come.
- * India has gathered experience in terms of working with global brands and this should benefit Indian vendors.

Companies with integrated capacities, such as Arvind Mills and Vardhman Spinning, capable of delivering large volumes are likely to gain.

Alternatively, market leaders in niche segments, such as Alok Industries, Abhishek Industries and Welspun India (both in cotton pile towels), may also emerge as gainers.

Some of the largest garment exporters, such as Orient Craft and Gokuldas Exports, which supply to international retailers, could gain considerably.

MICRO ANALYSIS OF INDIAN TEXTILE INDUSTRY

Established in 1962, Precot has symbolized quality and trust in the textile industry. With four decades of spinning experience and a diverse range of products that include cotton yarns, sewing threads, fabrics and garments. Precot is one of the few totally integrated textile companies in India.

state of the art infrastructure facilities and skilled personnel to rise up to customer expectations.

COMBED COTTON YARN:

- Knitting and Weaving : Ne. 20/1 to 50/1
- P/C Blends and Modal/Cotton Blends:
- Doubled yarn on TFO: Ne.50/2,56/2,66/2,74/2, 80/2, 94/2, 100/2
- Gassed yarn: Ne.40/2 to 100/2
- Compact spun yarn for Weaving
- Eli twist yarn for Weaving & Hosiery
- OE yarn 2's - 10's

POLYESTER SEWING THREADS ON TFO:

- Bulk cones Raw White & Dyed
- Mini cones 5,000 meters
- Ne.30/2, 30/3, 40/2, 40/3 & 60/3

Yarn dyed shirting fabrics under the brand 'GARTIKA'.

Count Range: 40's to 80's and 2/40's to 2/100's

Design's: Checks, Pin Stripes, Chambrey, Fil-a-Fil (upto 8 colours in weft)

Weave: Plain, Dobby, Oxford, Twill, Drill, Honey Comb

Finishes: Mercerised, Wrinkle Free, Micro bounce, Easy to Iron, Soil Repellant, Mosquito Repellant, Vitamin E, anti Bacterial.

The group has been accorded the status of 'Export House' by The Cotton Textile Export Promotion Council of India (TEXPROCIL). The countries they export their products are Belgium, China, Italy, Japan, Malaysia, Portugal, South Korea, Turkey and U.K.

state of the art infrastructure
expectations.

COMBED COTTON YARN

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Promotion Council of India (TEX

Belgium, China, Italy, Japan, Mala

CHAPTER-4

CHAPTER-4
DATA ANALYSIS AND INTERPRETATION

WORKING CAPITAL MANAGEMENT OF PRICOT MERIDIAN LIMITED

Working capital is a qualitative concept. It indicates the liquidity position of the firm and suggests the extent to which the working capital needs may be financed by permanent source of funds. Current asset should be sufficiently in excess of current liabilities to constitute a margin or buffer for maturing obligations within the ordinary operating cycle of a business.

CALCULATION OF WORKING CAPITAL:

Working capital is the capital invested in total current assets of the enterprise. It is calculated by deducting current liabilities from current assets. Current assets include Cash, Sundry Debtors or Receivables, Stocks and Advance payments. Current Liabilities includes Sundry Creditors, Lag in Payment of expenses.

STATEMENT SHOWING WORKING CAPITAL (rs in lakhs)

Particulars	Amount
<u>Current assets:</u>	
Cash & Bank balance	483.46
Sundry Debtors	1880.3
Inventories	8116.74
Other Current Assets	494.2
Total	10974.7
<u>Current Liabilities</u>	
Sundry Creditors	2571.83
Interest accrued	0.23
Trade Deposits	54.33
Unclaimed Dividends	33.55
Matured Unclaimed Fixed Deposit	1.94
Total	2661.88
Working Capital Requirement	8312.82

RATIO ANALYSIS:

Ratio analysis is a technique of analysis and interpretation of financial statements. It is the process of establishing and interpreting various ratios for helping in making decisions. It is not an end in itself. It is only a means of better understanding of financial strengths and weakness of the firm. The following are the four steps involved in the ratio analysis:

- (i) Selection of relevant data from the financial statements depending upon the objectives of analysis.
- (ii) Calculation of the appropriate ratios from the above data.
- (iii) Interpretation of the ratios.

ANALYSIS OF THE SHORT-TERM FINANCIAL POSITION

(A) LIQUIDITY RATIOS:

(i) CURRENT RATIO:

Current ratio is the relationship between current assets and current liability. Components of current ratio are current assets and current liabilities. Current Assets includes Cash in hand, Cash at bank, Marketable securities, Short term investments, Bills receivable, Sundry Debtors, Inventories, Work-in-process, Prepaid expenses. Current liabilities includes Outstanding expenses/Accrued expenses, Bills payable, Sundry creditors, Short-term advances, Income tax payable, Dividends payable, Bank overdraft. As a convention the minimum of 'two to one ratio' is referred to as a banker's rule of thumb.

The Current Ratio of Precot Meridian limited is 4.12 : 1.

INTERPRETATION: It shows a relatively high ratio, which is an indication that the firm is LIQUID and has the ability to pay its current obligations.

(ii) ACID TEST RATIO:

Liquid Ratio is a more rigorous test of Liquidity than the current ratio. Current assets include inventories and prepaid expenses which are not easily convertible into cash within a short period. Quick ratio may be defined as the relationship between liquid assets and quick liabilities. The other assets which can be included in the liquid assets are bills receivable, Sundry debtors, marketable securities and short-term or temporary investments. Components of Liquid ratio are quick assets and current liabilities. Quick assets include

Temporary Investments. Current Liabilities includes Outstanding or Accrued Expense Bills payable, Sundry Creditors, Short-term advances (payable shortly), Income-tax payable, Dividends payable, Bank overdraft.

A high acid test ratio is an indication that the firm is more liquid. As a rule of thumb as a convention quick ratio of 1:1 is considered satisfactory. Absolute liquid ratio should be calculated together with current ratio and acid test ratio also as to exclude even receivables from the current assets and find out the absolute liquid assets. The acceptable norm for this ratio is 50% or 0.5:1.

The higher the values of debtor's turnover the more efficient is the management of debtors. The very high ratio debtor's turnover implies a firm's inability due to lack of resources to sell on credit thereby losing sales and profits. There is no 'rule of thumb'.

The Acid Ratio of Precot Meridian limited is 2.67:1.

INTERPRETATION:

The firm has a high acid test ratio and it is in a good position.

(iii) CASH RATIO:

Absolute liquid ratio should also be calculated together with current ratio and acid test ratio So as to exclude even receivables from the current assets and find out the absolute liquid assets. Absolute liquid asset include cash at bank and marketable securities or temporary investments. The acceptable norm for this ratio is 50%.

The Cash Ratio of Precot Meridian limited is 0.37:1.

INTERPRETATION:

The Cash Ratio is not in a satisfactory position since the acceptable standard is 0.5:1.

ACTIVITY RATIOS:

(i) DEBTORS TURNOVER RATIO AND AVERAGE COLLECTION PERIOD:

This ratio indicates velocity of debt collection of firm. It indicates the number of times average debtors are turned over during a year. The higher the value of debtor's turnover the more efficient is the management of debtors/sales or more liquid are the debtors. A very high debtors turnover ratio implies a firm's inability due to lack of resources to sell on credit thereby losing sales and profits. There is no rule of thumb.

The Debtors turn over Ratio of Precot Meridian limited is 18.13:1.

The average collection period of Precot Meridian limited is 94.6 days.

INTERPRETATION:

The efficiency in management of debtors is good. The firm has to wait 95 days to convert its receivables into cash.

(ii) CREDITORS OR PAYABLES TURNOVER RATIO AND AVERAGE PAYMENT RATIO:

Payables turnover ratio helps in finding out how much time the firm is likely to take in repaying its trade creditors.

The payables turn over Ratio of Precot Meridian limited is 6.37:1.

The average payment ratio of Precot Meridian limited is 45.47.

INTERPRETATION:

The efficiency in management of credit is satisfactory. The firm takes 45 days to pay for its creditors.

(iii) WORKING CAPITAL TURNOVER RATIO:

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

The Working Capital Ratio of Precot Meridian limited is 4.1:1.

INTERPRETATION:

The working capital is turned four times in a year, it is not very low and it is satisfactory.

(iv) FIXED ASSET TO NETWORTH RATIO:

The ratio establishes the relationship between fixed assets and shareholder's funds. Shareholder's funds include share capital plus reserves, Surpluses and Retain earnings. If the ratio is less than 100% it implies that owners funds are more than total fixed assets and a part of the working capital is provided by the shareholders. When the ratio is less than 100% it implies that owner's funds are not sufficient to finance the fixed assets and the firm has to depend upon outsiders to finance the fixed assets. There is no rule of thumb. But 60 to 65% is considered satisfactory.

The Fixed Asset to networth Ratio of Precot Meridian limited is 1.52:1.

INTERPRETATION:

The owner's funds are efficient to finance the fixed assets and the firm need not depend on outsider's fund to finance the fixed assets.

(iv) RATIO OF CURRENT ASSET TO PROPRIETOR'S FUND:

Ratio is calculated by dividing the total of current assets by the amount of share holder's funds. The ratio indicates the extent to which the proprietor's funds are invested in current assets. There is no rule of thumb for this ratio.

The Proprietors Fund Ratio of Precot Meridian limited is 0.77:1.

ANALYSIS OF LONG-TERM FINANCIAL POSITION OR TESTS OF SOLVENCY:

(i) DEBT EQUITY RATIO:

It is calculated to measure the relative claims of outsiders and the owners against the firm's assets. The outsider's funds include all debt/liabilities to outsiders, whether long-term or short-term or whether in the form of debentures bonds, Mortgages or Bills. The shareholders funds consist of share capital, preference share capital, capital reserves, revenue reserves and reserves representing accumulated profits and surpluses like reserves for contingencies, sinking funds, etc. The ratio indicates proportionate claims of the owners and outsiders against the firm's assets. A ratio of 1:1 may be usually considered to be a satisfactory ratio although there cannot be any 'rule of thumb' or standard norm for all types of businesses.

The Debt Equity Ratio of Precot Meridian limited is 1.56:1

INTERPRETATION:

The company is in a satisfactory position. Though the rule of thumb is 1:1 since the company has a good net profit ratio the debt equity ratio is acceptable.

(ii) FUNDED DEBT TO CAPITALISATION RATIO:

The ratio establishes a link between the long-term funds raised by outsiders and long-term funds available in the business. Funded debt includes debentures, mortgage loans, bonds, other long-term loans. Total capitalization includes Equity share capital, Preference share capital, Reserves and surplus, other undistributed reserves, debentures, Mortgage loans, Bonds, Other long-term loans. Funded debt is that part of total capitalisation which is financed by outsiders. There is no 'rule of thumb' but still the lesser the reliance on outsiders the better it will be. If this ratio is smaller, better it will be, up to 50 or 55% this ratio maybe to tolerable and not beyond.

The Funded Debt to Capitalisation Ratio of Precot Meridian limited is 0.58:1.

INTERPRETATION:

(iii) EQUITY RATIO:

Equity ratio establishes the relationship between shareholders funds to total assets of the firm. The ratio of proprietor's funds to total funds is an important ratio for determining long term solvency of a firm. The shareholder's funds are Equity share capital, Preference share capital, undistributed profits, Reserves and surpluses. Out of this amount accumulated losses should be deducted. The total assets on the other hand denote total resources of the concern. The higher the ratio better is the solvency position of the company.

The Equity Ratio of Precot Meridian limited is 0.39: 1.

INTERPRETATION:

The equity position in terms of long-term financial position is satisfactory.

(iv) SOLVENCY RATIO:

The ratio indicates the relationship between total liabilities to outsiders to total assets of a firm. Lower the ratio more satisfactory or stable is the long term solvency position of a firm.

The Solvency Ratio of Precot Meridian limited is 0.61: 1.

INTERPRETATION:

The company can concentrate on reducing this ratio.

ANALYSIS OF PROFITABILITY RATIOS:

(i) NET PROFIT RATIO:

Net profit ratio establishes a relationship between net profit and sales, and indicates the efficiency of management in manufacturing, selling, administrative and other activities of the firm. The two basic elements of the ratio are obtained after deducting income-tax, non-operating incomes and expenses. It is usually expressed in percentage.

The Net Profit Ratio of Precot Meridian limited is 0.057: 1 or 5.7%.

INTERPRETATION:

To meet the shareholders expectations the company can improve its net profit.

(ii) NET WORTH RATIO:

It is also return on share holder's investment (ROI). It is a relationship between net profits and the proprietor's funds. The two basic components of this ratio are net profits and share holders funds. Share holders funds include Equity share capital, Preference share

capital, Free Reserve such as Share premium, Revenue reserve, Capital reserve, Retained earnings and surplus, Less accumulated losses if any.

The Net worth Ratio of Precot Meridian limited is 0.13: 1. or 13%.

INTERPRETATION:

Net profits are visualized from the view point of owners. Share holders compare with the return of other similar firms in the same industry. The inter firm comparison of this ratio determines whether the investments in the firm or attractive or not.

(iii) RETURN ON EQUITY CAPITAL:

This ratio is the relationship between profits of the company and its equity capital. It is calculated by deducting preference dividend from Net profit after tax divided by equity share capital (paid up). This ratio is meaningful to the equity share capital who are interested to know profits earned by the company and those profits which can be made available to pay dividend to them.

The Return on Equity Capital Ratio of Precot Meridian limited is 2.71: 1 or 271%.

(iv) EARNINGS PER SHARE:

This is calculated by dividing the net profit after taxes and the preference dividend by the total no of Equity shares.

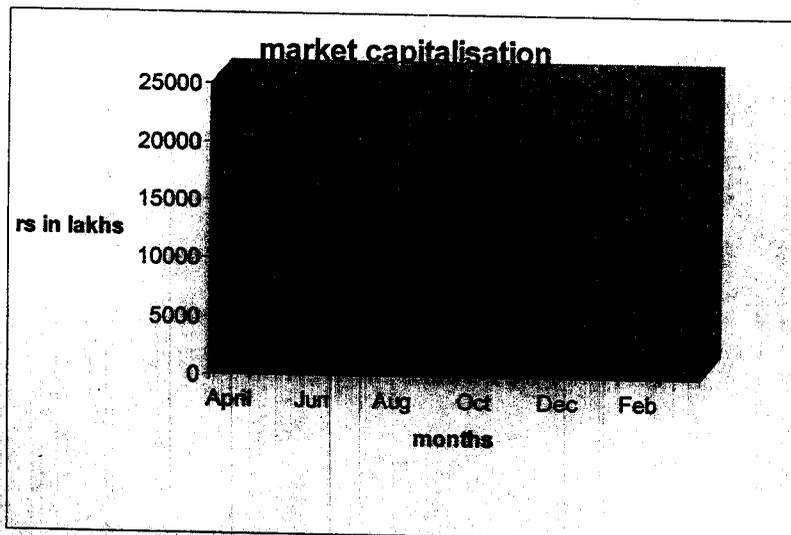
Earnings per share is Rs 27/

MARKET CAPITALISATION

Calculation of market capitalization helps in determining the market value of a concern. It is calculated by multiplying the total number of shares (6950000) with the market price of the share.

NSE Symbol: PRECOT

Month	Market capitalization (rs in lacs)
April	18973
May	20850
June	15637.5
July	16124
Aug	17722.5
Sep	18417.5
Oct	19807.5
Nov	18070
Dec	18070
Jan	14039
Feb	11954
March	18070



CHAPTER 5

CHAPTER-5

CONCLUSIONS

5.1 RESULTS AND DISCUSSIONS

RATIO ANALYSIS

1. SHORT TERM FINANCIAL POSITION OF THE COMPANY

- In all the company has a very strong liquidity position but it has to concentrate more on Cash balance, Bank balance and on Marketable securities as all the creditors are not expected to demand at the same time and then cash may also be realized from debtors and inventories
- With the evidence of activity ratios it is found that the average collection period is higher than the average payment period .Thus the company has to contribute more working capital to the extent of covering 50 day's working capital.
- The working capital turnover of the company is satisfactory.

2. LONG TERM FINANCIAL POSITION OF THE COMPANY

- The debt of the company is 0.56% above the tolerable limit.
- The funded debt to capitalization ratio is below the tolerable limit by 0.02%.
- The solvency position of the company is good since the total assets are 39% in excess of total liabilities.

3. PROFITABILITY POSITION OF THE COMPANY

- The profit is 5.7% of the sales.
- The net worth or return on equity capital is 13%.
- The earnings per share is Rs.27.

MARKET CAPITALISATION

1. The company's position in the market is volatile.
2. The demand and supply of the company's share is fluctuating.

5.2 CONSIDERED RECOMMENDATIONS

1. The cash ratio of the company is not confining to the acceptable limit. To compensate this, the company has to concentrate on cash at bank and marketable securities or temporary investments.
2. Average collection period is higher than the average payment period. If the firm desires to reduce its working capital requirements without affecting the production cycle it can try balancing the collection and payment period.
3. The funded debt to capitalization ratio is 0.02% below the tolerable limit. In order to have a good long term financial position and since funded debt is risky the company can convert it as capital.

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Consolidated Profit and Loss Account

	Schedule	Year Ended 31.03.2007 Rs.Lacs	Year Ended 31.03.2006 Rs.Lacs
Income			
Sales - Domestic	10	26619.83	21154.05
- Exports		7468.22	3059.98
Other Income	11	504.61	706.34
Share in Profits / loss of associates		-	16.66
Increase / Decrease In Stock of finished goods	12	503.98	13.32
		<u>35096.64</u>	<u>24950.35</u>
Expenditure			
Raw Materials	13	16370.63	10673.95
Salaries & Wages	14	2952.12	2402.60
Power & Fuel		3901.01	2982.39
Stores		1496.44	1123.39
Repairs & Maintenance	15	1908.61	1557.24
Processing Charges		432.61	390.00
Selling Expenses	16	1418.87	1049.37
Administrative Expenses	17	708.90	566.50
Interest & Finance Charges	18	910.15	179.88
Preliminary Expenses written off		-	0.02
		<u>30099.34</u>	<u>20925.34</u>
Profit Before Depreciation and tax		4997.30	4025.01
Less: Depreciation	5	2384.43	1831.53
Amortisation of intangible assets		46.76	46.76
Profit Before Tax		2566.11	2146.72
Less: Provision for Taxation		567.03	329.76
Corporate Benefit Tax (FBT)		14.60	9.94
Unadjusted Tax Adjustment		50.73	282.00
Provision for FBT(Prior Year)		8.55	-
		<u>1925.19</u>	<u>1525.02</u>
Profit brought forward		380.54	328.38
Profit After Tax Appropriation		<u>2305.73</u>	<u>1853.40</u>
Dividend		347.50	327.00
Reserve		59.06	45.86
Reserve		1500.00	1100.00
Profit and Loss A/c		399.18	380.54
		<u>2305.73</u>	<u>1853.40</u>
Exchange Difference (in Rs.)		27.70	27.98

The accompanying Accounting Policies and notes on Consolidated Accounts form part of this Profit & Loss Account

Approved and signed on behalf of the Company

For the Company: **Frank S.G. Subramanyam & Co.,**

Chartered Accountants

Chennai

D Sarath Chandran
Chairman & Managing Director

Ashwin Chandran

Consolidated Balance Sheet

Sources of Funds	Schedule	As at 31.03.2007 Rs.Lacs	As at 31.03.2006 Rs.Lacs
Shareholders' Funds			
Share Capital	1	695.00	545.00
Reserves & Surplus	2	13670.09	10890.18
Loan Funds			
Secured Loans	3	19171.06	9590.09
Unsecured Loans	4	280.71	-
Deferred Tax Liability		2533.01	2056.75
Total Funds Employed		36349.87	23082.02
Application of Funds			
Fixed Assets			
Gross Block	5	43044.78	29475.50
Less: Depreciation		21419.32	16019.89
		21625.46	13455.61
Capital Work-in-progress		1198.50	469.93
		22824.05	13925.54
Investments	6	2217.24	2885.92
		8336.80	5819.03
		2100.84	1206.18
Receivables		691.76	1138.14
Assets		494.40	368.09
	7	4168.35	2218.32
		15792.15	10749.76
Reserves & Provisions	8	4483.57	4746.62
		11308.58	6003.14
Share Premium	9	-	267.42
		36349.87	23082.02

The accounting Policies and notes on Consolidated Accounts form part of this Balance Sheet.

Chartered Accountants
S. S. Subramanyam & Co.,
 Chartered Accountants

D Sarath Chandran
 Chairman & Managing Director
Ashwin Chandran
 Director Operations