

PROFITABILITY AND SOLVENCY ANALYSIS OF KISAN MOULDINGS LIMITED: A CASE STUDY

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ABSTRACT:

The researchers have studied the financial reports of Ksan Mouldings Ltd for the financial year commencing from 2011-12 to the financial year 2015-16 to find out the profit earning capacity and the solvency position of the company. They have used various ratios to find out the trends of profitability and the solvency during the study period. It has been observed that the profit earning capacity during the period is not satisfactory. Solvency position is also not satisfactory. There is higher dependency over the external borrowings. The capital structure is also trending to the high gearing. The researchers have suggested to take necessary action to reduce the cost of production and to strengthen the market efficiency to expand the market sharing and to increase the demand of the products. New shares may be issued to reduce the dependency over external borrowings.

Key Words: Profitability, Solvency, Ratio Analysis

INTRODUCTION:

Kisan Mouldings Ltd (KML) is one of the pioneer manufacturing industry in PVC pipes and fittings in India since 1982. Over the three decades Kisan Mouldings Ltd has carved a niche in the fields of pipes and fittings for water management, irrigation, water distribution and sewage disposal system. In plastic processing industries KML holds a leading position by manufacturing 50000 metric tons of polymer each year. KML produces a wide range of products including PVC or HDPE pipes and fittings for traditional flood irrigation, fustigation system, foggers or products used for landscaping. The company provides complete irrigation solution system of their desired customer. The company also the pioneers of rain water harvesting system in India. KML had incurred a total loss of Rs. 1531.50 lakhs during the financial year 2015-16 though it had successfully reduced it losses compared to the previous year which was Rs. 3784.56 lakhs in 2014-15. But if we go through the last few years financial

results of KML we find the company had the profit earning capacity throughout those years. So it is necessary to discover why had the company achieves an adverse financial result in recent past two years. Our primary objective is to find out the profitability analysis of KML and also to find out whether these losses have affected on its financial position or not. So our secondary objective is to find out the financial strength that is solvency position of KML.

OBJECTIVES:

The main objectives of our study are to find out the profitability and solvency of KML. To find out the result we are looking for the growths of-

- i. Net profit ratio over the years
- ii. Net profit to Total Asset ratio over the years
- iii. Net profit to Fixed Asset ratio over the years
- iv. Net profit to Working Capital ratio over the years
- v. Current Asset Ratio over the years
- vi. Liquid asset ratio over the years
- vii. Debt-Equity ratio over the years
- viii. Proprietary ratio over the years
- ix. Capital Gearing ratio over the years

RESEARCH METHODOLOGY:

The study is based on the secondary data collected from the published annual reports of KML for the last five financial years commencing from the year 2011-12 to 2015-16. For the interpretation of the data we have used the ratio analysis as an analytical tool and mean and SD as statistical tools.

For the profitability analysis we have used the following ratios:

| Ratio | Formula | Interpretation |
|---|---|---|
| Net Profit Ratio (NPR) | $\text{Net Profit} \times 100 / \text{Turnover}$ | Higher the ratio indicates higher the profitability |
| Net Profit to Total Asset Ratio (NPTAR) | $\text{Net Profit} \times 100 / \text{Total Assets}$ | Higher the ratio indicates higher the efficiency of using assets to earn profit |
| Net Profit to Fixed Asset Ratio (NPFAR) | $\text{Net Profit} \times 100 / \text{Fixed Assets}$ | Higher the ratio indicates higher the efficiency of using fixed assets to earn profit |
| Net Profit to Working Capital Ratio (NPWCR) | $\text{Net Profit} \times 100 / \text{Working Capital}$ | Higher the ratio indicates higher the profit earning capacity by Working capital |

For the solvency analysis we have used the following ratios:

| Ratio | Formula | Interpretation |
|---------------------------|--|---|
| Current Asset Ratio (CAR) | $\text{Current Assets} / \text{Current Liabilities}$ | Higher the ratio indicates higher solvency |
| Acid Test Ratio (ATR) | $\text{Liquid Assets} / \text{Liquid Liabilities}$ | Higher the ratio indicates better solvency |
| Proprietary Ratio | $\text{Net Worth} / \text{Total Assets}$ | The higher the ratio the lesser is the reliance on outsiders. Although too high a ratio may not be good for it |
| Debt-Equity Ratio (DER) | $\text{Outsiders Fund} / \text{Shareholders' Fund}$ | The higher the ratio the greater will be the risk to the creditors and this indicates too much dependence on long term debts. |

DATA ANALYSIS AND INTERPRETATION:

Data relating to profitability and solvency are shown in the Table-1 bellow:

| Variables/Year | 2015-16 | 2014-15 | 2013-14 | 2012-13 | 2011-12 |
|---------------------|----------|----------|----------|----------|----------|
| Share | 2032.51 | 2032.51 | 2032.51 | 2032.51 | 2032.51 |
| Reserve | 2135.61 | 3906.63 | 7609.18 | 8084.05 | 8006.55 |
| Net worth | 4168.12 | 5939.14 | 9641.69 | 10116.56 | 10039.06 |
| Borrowings | 11225.35 | 10509.22 | 6129.45 | 6003.14 | 6690.07 |
| Current Liabilities | 27510.99 | 23815.4 | 28579.63 | 30026.01 | 25500.08 |
| Working Capital | 2662.98 | 3893.97 | 2174.51 | 1344.44 | 2074.2 |
| Liquid Liabilities | 27510.99 | 23815.4 | 28579.63 | 30026.01 | 25500.08 |
| Fixed Assets | 12116.47 | 12673.24 | 13693.8 | 14681.28 | 14680.58 |
| Non Current Assets | 1479.34 | 1132.97 | 1161.92 | 1476.06 | 1331.48 |
| Current Assets | 30173.97 | 27709.37 | 30754.14 | 31370.45 | 27574.28 |
| Total Assets | 42290.44 | 40382.61 | 44447.94 | 46051.73 | 42254.86 |
| Stock | 14051.18 | 15640.68 | 14645.93 | 15849.09 | 12898.54 |
| Liquid Assets | 16122.79 | 12068.69 | 16108.21 | 15521.36 | 14675.74 |
| Turnover | 46441.83 | 44898.48 | 53635.38 | 51956.69 | 44018.97 |
| Net profit | -1531.5 | -3784.46 | 232.91 | 242.13 | 704.37 |

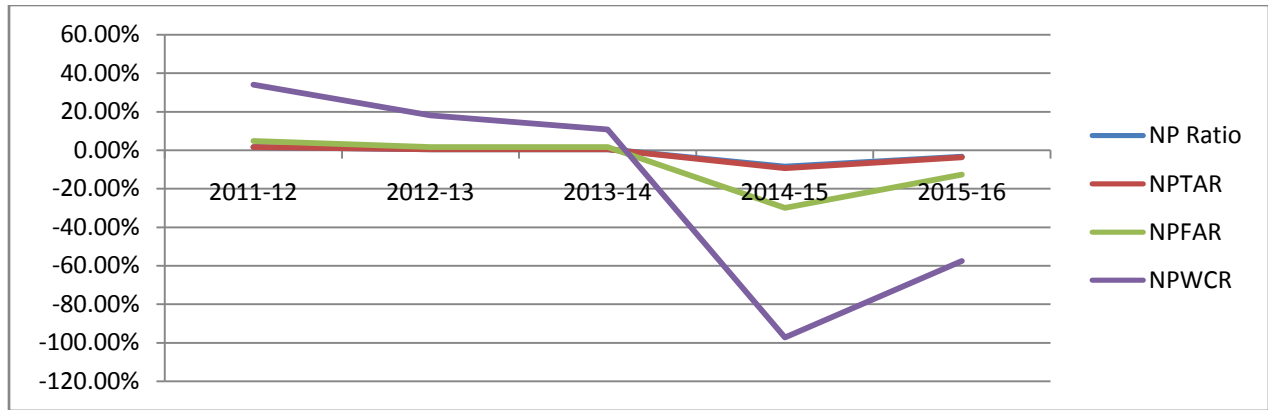
Source: Annual Reports of Kisan Moulding Ltd.

From the above data we are now considering various profitability ratios in Table-2 bellow:

| Year | NP Ratio | NPTAR | NPFAR | NPWCR |
|---------------|-----------------|----------------|-----------------|-----------------|
| 2016 | -3.30% | -3.62% | -12.64% | -57.51% |
| 2015 | -8.43% | -9.37% | -29.86% | -97.19% |
| 2014 | 0.43% | 0.52% | 1.70% | 10.71% |
| 2013 | 0.47% | 0.53% | 1.65% | 18.01% |
| 2012 | 1.60% | 1.67% | 4.80% | 33.96% |
| Mean | -1.85% | -2.06% | -6.87% | -18.40% |
| Median | 0.43% | 0.52% | 1.65% | 10.71% |
| SD | 0.04 | 0.05 | 0.15 | 0.56 |
| Co-Var | -223.221 | -221.84 | -211.428 | -305.588 |

Source: Compiled From the Annual Reports

From the above table it is clear that profit earning capacity of KML is not satisfactory at all. The Net profit ratio of KML was highest in 2011-12, which was 1.60% was not good enough at all. Even the trend of the ratio is declining too much. The same is also true for the other profitability ratios viz. NP TAR, NPFAR and NPWCR. We may show the trends of these profitability ratios in the following chart-1:



Now for the solvency analysis we are presenting the various ratios in Table-3 below:

| Year | CAR | LAR | DER | Prop rat | CAPGER |
|---------------|----------------|-----------------|----------------|----------------|-----------------|
| 2015-16 | 1.10 | 0.59 | 2.69 | 9.86% | 0.49 |
| 2014-15 | 1.16 | 0.51 | 1.77 | 14.71% | 0.34 |
| 2013-14 | 1.08 | 0.56 | 0.64 | 21.69% | 0.21 |
| 2012-13 | 1.04 | 0.52 | 0.59 | 21.97% | 0.20 |
| 2011-12 | 1.08 | 0.58 | 0.67 | 23.76% | 0.20 |
| Mean | 1.09 | 0.55 | 1.27 | 0.18 | 0.29 |
| Median | 1.08 | 0.56 | 0.67 | 0.22 | 0.21 |
| SD | 0.04 | 0.04 | 0.94 | 0.06 | 0.13 |
| Co-Var | 4.02431 | 6.494451 | 73.5522 | 32.0345 | 43.67839 |

Source: Compiled From the Annual Reports

The Current Asset ratio is indicating that the solvency position of KML is moderate throughout the period as it is below the standard of 2:1 though its current assets are capable to cover its current liabilities in full extent. Liquidity position is very low as the LAR is revealing that the average ratio throughout the period is far below the standard of 1:1. The DER is also disclosing that the dependence over the external borrowings is increasing during the period. The Proprietary ratio is also reveals that the reliance over the outsiders is too high. It is very clear that the CAGR is increasing to the high gear during the study period.

SUGGESTION AND CONCLUSION:

The researchers are suggesting the managers to look forward for the new sources of raw materials at lower price so as to reduce the production cost. The quality of production should also be improved which will attract the quality customers. Research and Development wings of the company should take necessary steps for quality control and to introduce new products with high quality to capture new opportunities in the market. The marketing ability should also be enhanced to expand the market and to capture maximum desired customers. Marketing research is advisable for it. For strengthening the solvency position it is to advise that dependence over external borrowings should be reduced. The company may issue further share capital to reduce the reliance over external borrowings. The managers should also try to reduce the current liabilities to recover its liquidity position as in standard level.

LIMITATION OF THE STUDY:

The study is based only on the secondary data for five years. Data for more than five years may give a different result. Different statistical tool and different ratios for analyzing profitability and solvency may give different interpretation. Present market scenario is not also considered in our study.

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