

Abstract of Doctoral Dissertation

**Analysis of Published Statements of
Accounts of Corporate Units (Cotton Textile
Industry of Malwa Region — A Case
Study)***

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Financial statements are admittedly a storehouse of valuable information of the past performance and present position of joint stock companies. Their scientific analysis and interpretation can give a fair indication of the future growth of a company. More and more dependence is being placed by management on information obtained by an objective analysis of financial statements, not only for assessing what has happened, but also to pre-determine what should happen.

Analysis and interpretation of financial statements are necessary so that the mystery behind the figures of financial statements may be revealed and the real picture brought to light for the benefit of all concerned. Forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities and probability of a sound dividend policy on the basis of the analysis of financial data. Analysis of statements helps to determine the significance of the financial data.

The object of the present study is to obtain an insight into the financial position of the selected units of cotton textile industry of Malwa region and to judge their profitability and financial strength. The performance of cotton textile units of Malwa region during the years 1985-86 to 1989-90 has been measured by a methodical and systematic exposition of the general principles of analysis of financial statements. This will provide guidelines to management, investors, creditors, consumers, workers, financial institutions & Banks and Government to take decisions related to their own sphere of interest.

Objectives of the Present Study

The appraisal covers the study of five years i.e. from, 1985-86 to 1989-90. The main objectives of the study are :-

- i. to obtain a true insight into the financial position by undertaking a comparative study of the financial statements of these units.

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- ii. to examine the effect of changes in financial structure of these units,
- iii. to appraise the management of working capital, fund-flow and fixed assets to find whether the scarce financial sources are being utilised to their optimum level,
- iv. to assess the profitability of these units.

Hypothesis

1. Malwa region had been famous for its black soil and rich cotton crop. As a result, this region attracted cotton textile industry and had a proud place in the textile industry of the country. But, in the recent past the textile units in the region are in trouble and almost all the units without any exception have fallen sick.
2. The units covered under the present study have been experiencing imbalance in their financial structure i.e. their current ratio is less than that ideal ratio 1:1 and they also have exhibit worsening trends in debt-equity ratio.
3. Further, their accumulated losses have far exceeded their entire net-worth.
4. These textile units have turned into sick units due to mainly the internal factors as well as internal factors like defective corporate management, inefficient operation & technological obsolescence. As a result profitability and working capital have turned to be negative. Preventive measures like the assistance from financial institutions and other Government agencies have failed to check the sickness of these units.
5. Curative measures like the take-over of these units by National Textile Corporation from time to time have also failed to achieve and manage a turn-a-round and some of units have been forced to wind-up their business.

Methodology

The data used in the present study are secondary data. These have been obtained from the annual report of the cotton textile units of Malwa region for five years. These data have been supplemented with other published material, various reports of organisations and information in journals relating to economic, financial and commercial matters.

The present study has been completed with the help of the studies and the surveys done by NTC, MPFC, ATIRA and various researchers regarding the financial analysis of the units of other regions of India. Articles, Books and Thesis related with the present study list of which received from National Social Science Documentation Centre under ICSSR are also studied.

For the purpose of analysis work the ratio techniques and common-size analysis have been adopted in the present study. All the financial data related to study have been rounded off in lacs. Balance Sheets and Profit & Loss Accounts have been rearranged in standard formats. The techniques of fund-

flow analysis have also been used. Chi-square test has been applied to evaluate the operational efficiency of the funds generated in the industry.

Findings

The important findings from the present study are as under: -

- * Financial Strength - Weak & disappointing
- * Profitability - Increasing negatively
- * Fixed Assets-Financed mainly through owners fund
- * Working Capital - Not managed properly & effectively
- * Funds Flow-Predominance of long-term borrowings.

On the basis of the analysis of profitability, financial strength, working capital, fixed assets and funds flow, it can be concluded that the performance of the three units under National Textile Corporation was better than that of the units of private sector. The position of the Kalyanmal can be ranked on top among public sector units and that of Hukumchand among private sector units.

Suggestions

So far, crores of rupees have been invested for the rehabilitation of these units. Many Government agencies financial institutions and banks are trying their utmost to check and control the sickness of the units under study but the results have been very disappointing. The efforts put in by these institutions could not bring improvement in the working of these units, but on other hand, their own working and finances have been jeopardised. Really speaking, the units under study are chronically ill and non-viable as is clear from the figures of accumulated losses given below:

Name of Unit	Accumulated Losses SAS on 31.3.1990	
	Amount (Rs. in lacs)	Percentage to total assets
Rajkumar	1317.16	79.25
Binod	4807.65	87.28
Hukumchand	3780.28	71.72
Kalyanmal	2862.73	72.66
Malwa	4543.76	79.48
Hira	3327.05	81.15

The above figures of accumulated losses show that all the units under study are practically on the threshold of bankruptcy. These units are facing serious crisis and financial crunch. Several of these are deep in debts with very little capacity to raise fresh finances. All these units are on the brink of closure. Apart from this, there is no work-culture in the workers of these units. The future of these units and the industry is also dark as the synthetic cloth is becoming more popular among the cloth consumers. Due to all these

reasons, two units Binod and Hukumchand have already been closed down during the last two years.

The recent economic reforms as envisaged by the present Government and our Finance Minister in support of 'free economy' in India, require the immediate closure of the present non-viable units. This will open the path of rapid development with establishing new units under modern technology. Moreover, the Government of India is of the opinion that funds for modernisation of non-viable and sick units should not be disbursed and allotted as per the regulations of New Textile Policy of 1985 and 1990. Some of the renowned industrialists of Madhya Pradesh who are closely associated with cotton textile industry, also are of the opinion that the real remedy for such non-viable composite units is their immediate closure; only then the development of cotton textile industry is possible. They further asserted that if units under public and private sector are not closed, achievement of 'Commanding Heights is Textile Industry' is not possible. The Secretary of Madhya Pradesh Cotton Mills Association, Indore also opined in his interview with 'India Today' that the only solution to save the economy from further losses, is to close down such sick and non-viable units. The Board of Industrial and Financial Reconstruction has recently rejected the modernisation scheme for units covered under study submitted to Reserve Bank of India, although the scheme was approved by Industrial Financial Corporation of India.

So, in the light of the above views, a humble suggestion is that the units under study be closed down. There seems to be no reason why to keep these units alive on oxygen to prevent the 'natural death' of the industry which should not be prevented. These units inherently are financial failures. The revenues of these units are insufficient to meet costs. Heavy accumulated operating losses have led to an erosion of assets which ultimately has brought these units to the point of financial and fundamental bankruptcy. These units are really dead ones.

The only problem in implementing the decision of closure is the problem of thrown-out workers. But it will be a practical and correct approach if the finances which are being unnecessarily and wastefully put in the operations of these units, are diverted for rehabilitation of thrown-out workers in the other more useful and alternative areas of production. This solution gives answer to the question raised in the rationale of this study, 'should these units be kept on working in losses on the ground of mere providing relief against unemployment?'

In fact, the suggestion laid down in the above paragraphs will not be a pain-less remedy as the workers employed in these units will be thrown out of employment. This remedy may prove to be worse than the disease because the unemployment work-force will effect adversely the social system of the society. It will be a question of life and death for the workers associated with this industry and there shall be fierce opposition of workers to any such move. Hence this problem needs human consideration as well. Taking this view, if Government is not of the opinion to close down these units, then the

following suggestions are being offered to make improvement in the working of these units :-

- *Composite Nature* : Need for separate processes.
- *Capital Structure* : Internal reconstruction needed.
- *Profitability* : Reduction in high operating cost required
- *Fixed Assets* : Modernisation is must.
- *Working Capital* : Proper planning and efficient management stressed.
- *Funds Flow* : Generation of internal funds needed.
- *Management Information System* : Needs to be evolved.

To Sum Up

The units covered under the study, hardly a few years back, occupied a place of prominence and pride in the economy of Malwa region. These units contributed significantly to the economic growth and progress of this region and provided gainful employment to thousands of people. Unfortunately, these units which have such a glamorous record of contribution to the economic prosperity of this region are on the brink of bankruptcy. The units which once enjoyed the status of 'Commanding heights', have reached not the state of 'Demanding depth'. As stated earlier, these units are kept alive on oxygen.

Such industrial sickness is not peculiar to India alone. It is found even in advanced countries. But in developed countries, the treatment given to cure industrial sickness is different from that of developing countries. The most common treatment in advanced countries for such industrial sickness is 'forced bankruptcy' or 'closure of such units'. Under such a treatment, thousands of workers employed in the unit are thrown out of employment. The question is whether we can afford such a treatment in labour abundant economy like that of India, which shall result in large scale unemployment. The problem has a human aspect also. Rationality may demand such 'mercy-killing' but humanity denies it. The problem is perplexing and complicated one. The question is what to do in such intricate and perplexing situation.

In my humble opinion it is not only finance which can rehabilitate and revitalise these sick units. It is not the problem of efficient financial management alone. It is the problem of personnel management too. The support and active co-operation of employees is highly solicited in the recovery and revival of these units. Many sick units, virtually on the verge of liquidation were entrusted to the labour co-operatives and they are now running successfully. The same experiment may be made in these units also.

Nothing is impossible if the management of these units implement sincerely the suggestions stated earlier in this chapter, and at the same time they try to win the whole-hearted and willing co-operation of the employees and achieve their enthusiastic participation and close association in the day-to-day working of these units. What these chronically sick and loss-making units require is the judicious combination of efficient financial administration and skilful personnel management. The management who manages men and money skillfull may achieve impossibles.