A Study on Financial Leverage towards Co-operative spinning mills limited with reference to Krishnagiri District.

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Abstract

The strategy of going global offers various in the field of finance, the most widely emphasized goal of the firm to maximize the value of the firm to its owners which is the driving force to make the organization successful. Finance is the core structure of the business. All the managerial activities are centered on finance. Financial management is an appendage of the finance function as it provides a frame work for selecting a proper course of action and deciding viable commercial strategy. It is applicable to every type of irrespective of size, kind or nature to meet long-term commitment, a firm needs permanent capital and for its short-term commitments, working capital is needed. Financial statements are organized primarily for decision-making; they play a central role in setting the agenda of managerial decision. Financial analysis is the procedure of identifying the monetary strength and weakness of the firm by appropriately starting relationship between the items of the balance sheet and profits and loss account. Leverage references to furnish the aptitude to use fixed cost resources or funds to increase the visit to its shareholders.

Keywords: *Financial performance analysis, Ratio analysis, Liquidity, Financial position*

Introduction of the study

Finance is the core structure of the business. All the managerial activities are centered on finance. Financial management is an appendage of the finance function as it provides a frame work for selecting a proper course of action and deciding viable commercial strategy. It is applicable to every type of irrespective of size, kind or nature. Financial management activity is centered with the planning and controlling of firms financial resources both long term and short term.

The strategy of going global offers various in the field of finance, the most widely underlined goal of the firm to maximize the value of the firm to its owners which is the pouring force to make the organization positive. This is possible only when, it has sufficient financial resources to meet the long term and short term requirements. Business can be conceded on successfully with proper procedure of funds. Funds are inflexible required to carry on the various events of a business which should be pursed on fulfilling the firm's long-term and short-term commitments.

To meet long-term commitment, a firm needs permanent capital and for its short-term commitments, working capital is needed. Financial statements are organized primarily for decision-making; they play a central role in setting the agenda of managerial decision. The information provide in the financial statement is of immerse use in making decisions through analysis and interpretation of financial statement. Financial analysis is the procedure of identifying the monetary strength and weakness of the firm by appropriately starting relationship between the items of the balance sheet and profits and loss account. There are various measures used in inspection financial statements such as talented statements, calendar of changes in working capital, mutual size percentage, fund flow analysis, trend analysis, and leverage and ratio analysis.

Importance of financial analysis

Financial analysis is the development of identifying the economic strengths and weakness of the company by appropriately establishing the relations between the items of financial reportsviz, balance sheet and profit and loss account. Financial analysis can be assumed by management to the company viz, possessors, creditors, originators and others, the nature of the analysis will differ depending on the purpose of the analysis.

Management should be particularly interested in knowing the financial strength of the company to make their best use and to be able to spot out the financial weakness of the company to take suitable corrective actions. The future plan of the company should be laid down in the view of the company's financial strength and weakness. The financial analysis is the starting point for making plan, before using a sophisticated forecasting an budgeting procedure.

Leverage

Leverage helps both the investor and the firm to investor or operates. However, it comes with greater risk. If depositor uses leverage to make an asset and the investment moves against the investor, his or her loss is much superior than it would've been if the share had not been leveraged influence increases both gains and losses. In the commercial world, a company can use leverage to try to harvest shareholder wealth, but if it fails to do so, the interest spending and credit of default terminates shareholder value.

Meaning of Leverage

The term force refers to an enlarged means of completing some purpose. Leverage is used to thrilling heavy objects, which may not be otherwise thinkable. In the economic point of view, leverage references to furnish the aptitude to use fixed cost resources or funds to increase the visit to its shareholders.

Definition of Leverage

James Horne has demarcated influence as, "the employment of an asset or fund for which the firm pays airmobile cost or fixed return.

Importance of Leverage

Leverage provides the following benefits for businesses:

- Leverage is vital tool a company's management can use to make the best supporting and asset decisions.
- It provides a diversity of financing foundations by which the firm can attain its target earnings.

Leverage is also a significant method in investing as it helps corporations set a threshold for the development of business operations. For example, it can be used to mention boundaries on business expansion once anticipated return on additional speculation is lower than cost of debt.

Review of literature

SiddharthMahajan and MainakSarkar(2007) in his education, an attempt has been made to associate the financial presentation of three Indian companies, Tata motors, Maruti and Mahindra & Mahindra with two MNCs, Honda and Hyundai. Ten ratios have been used. There are four profitability families, four wateriness ratios and two solvency ratios. The profitability relations used are profit brim, asset turnover, return on assets, and return on justice. The fluidity ratios used are current ratio, quick ratio, debtor turnover and inventory revenue ratio. The affluence ratios used are obligation to equity ratio and interest treatment ratio. In effectiveness ratio, the profit margin is unevenly the same for the Indian concerns and for the MNCs. The asset profits and return on possessions of the MNCs are unfairly double that of Indian Companies. This indicates that the MNCs are more efficient at utilizing their assets to generate profits. However, the return on equity of the Indian Companies is about ten times that of the MNCs. In liquidity ratios, the current ratio, the quick ratio and the inventory turnover ratio are roughly the same for the Indian Companies and for the MNCs. This indicates that the Indian companies and the MNCs both follow similar practices and have similar performance in working capital management of inventories. In wealth ratios, the liability to equity ratio of the Indian companies is about one-and-half times that of the MNCs. This is because the Indian Companies use much less equity capital that the MNCs. Also the interest coverage ratio of the MNCs is about four times that of the Indian Companies. This is because the MNCs use much more equity financing and less debt financing.

SudiptaGhosh (2008) conducted a case study "Liquidity Management: **A** case study of TISCO" based on the objectives: 1) To examine the liquidity location of the company 2)To study the liquidity situation of the company more quite by a comprehensive test and 3) To measure the closeness association between liquidity and profitability. The study period was from 1996-97 to 2000-01. During the above period, it was

Found that the liquidity situation of the company on the basis of existing ratio as well as quick ratio was not acceptable. It indicates that the share of current assets in total assets of the company on an average was 29.1 during the period under study. The oscillation in the liquidity situation over different years of the study period may be a point for examination into the financial efforts of the company. It is suggested that to maintain overall control over liquidity position the company should give special attention to the management of current assets. He finds out that the degree of influence of liquidity on its profitability was low and insignificant.

Rajamohan S. and Vijayaragavan T. (2008) his study conducted “Production Performance of Madras Cement Limited and that of All Cement Units in India - A Comparative Analysis”. In order to study the qualified production presentation of Madras Cements Limited and all cement units in India, Mann-Whitney U-test was applied. The results of analysis indicates that the production performance of selected unit is equal to production performance of all cement units in India.

Adolphus J. Toby (2008) conducted his study entitled “Liquidity Performance Relationship in Nigerian Manufacturing Companies (1990- 2002)”. This study aimed at determining the empirical relationship between company liquidity measures and profitability. The data were collected from 87 quoted manufacturing companies, Ten (10) multiple regression models were estimated with liquidity measures as independent variables and then

covering profitability efficiency and leverage measures as dependent variables. The results of the study reveal statistically significant relationship between liquidity and profitability efficiency and leverage measures. The study has also made an attempt to suggest that in order to target money supply, monetary policy could be used to facilitate the monetary transmission mechanism by integrating a minimum liquidity requirement for the manufacturing industry as one of the objectives of macroeconomic policy.

Statement of the problem

The present study is intended to analyze the working capital management in kirishnagiri district. Co-operative spinning mill .The management of both current assets and current liabilities has been critically analyzed. The current segment of total capital has drawn little attention in India. Of course working capital management has acquired important position and great significance in the recent past. However, the research work on his topic is still in its infancy. Many a time in the event of a failure of an enterprise the shortage of working capital is given out as its main cause. But in the final examination it may be the mishandling of working capital. Working capital management which is related with short-term financial decisions appears to be

Relatively neglected by financial experts. Thus, after going through existing literature in the library, considering the availability of time, information, tools and techniques of and other related sources and after deep discussion with guide, researcher has selected this topic.

Scope of the study

- In order to find the leverage for different periods and its trend, the data from the annual report has been considered. The result and answers from the education may deliver scope for improving the financial performance.
- By influence examination, we would be able to get a fair picture of the monetary position of the company.
- By showing the leverage to various lenders and creditors it is possible to get credit if good financial is maintained in the company with assets out weighting the liabilities.
- Protecting the property of the business.
- It is obliging to choose the capital building, explores sure guide lines relevant for capital structure decision.
- We can find the debt burden through the ratio analysis i.e. interest, cash flow, fixed assets coverage ratios.

Objectives of the study

The objectives of the study are as follows:

- To find out leverage position of the company by using operating leverage, Financial leverage, combined leverage.
- To analyze debt position and share holders wealth of the company by using financial leverage.
- To find out the operating profit of the company by using operating Leverage.
- To find out the entire income of the company by using composite
- leverage.
- To analyze the interest coverage ratio, cash flow coverage ratio, fixed assets coverage ratios.

RESEARCH METHODOLOGY

Research approach is a way to analytically solve the study problems. According in Clifford woody" investigation compresses defining and redefining complications, formulating theory or suggested solutions. Collecting, establishing and evaluating data, making deduction and at last sensibly testing inference to determine whether they fit the formulating hypothesis.

Meaning of research design

The difficult problem that follows the task of crucial the research problem is the homework of design of the exploration project, popularly known as the research design, decision regarding what, where, how much, by what means regarding an autopsy of a study found a study project. A research design is the procedure of conditions for assortment and investigation of data relevance to the research purpose with economy in procedure.

Sources of data

Data we collected based on two sources.

- Primary data.
- Secondary data

Secondary data:

The secondary data are those which have beforehand been poised by some other activity and which have already been administered. The sources of subordinate data are annual reports, glancing internet, through magazines.

- It includes data gathered from the annual report.
- Articles are collected form official website.

Methodology used:

Type of financial statements adopted

Following two types of financial statements are commonly used in analyzing the firm's financial position

- Balance sheet.
- Income statements

Current ratio

The lower the proportion of cash to current asset the greater will be the profitability but lesser the liquidity. According to Guttmann in a business cash shall not be less than 5-10% of current assets.

Table 4.1

S.no	Year	Current assets (in lakhs)	Current liabilities (in lakhs)	Ratioin %
1	2014-2015	101.28	488.75	0.20
2	2015-2016	282.7	472.75	0.59
3	2016-2017	178.21	364.99	0.48
4	2017-2018	534.05	299.99	1.78
5	2018-2019	581.75	361.76	1.60

Source: primary data

Interpretation

The Table shows the current ratio for the financial year from 2014-2015 to 2018-2019.while comparingthe5yearresultsin2017-2018theratiowas1.78ishighestbuttheremaining4yearcashhad decreasing. But the idle ratio cash to current assets shall not be less than 5-10% of current assets. While comparing to 5 year the company does not utilizing propermanner.

Working capital turn over ratio

This ratio establishes a relationship between net sales and working capital. The objective of comparing this ratio is to determine the efficiency with the working capital is utilized. In the form of formula this ratio may be expressed as under

S NO	YEAR	NET SALES In lakhs	WORKING CAPITAL In lakhs	RATIO
1	2014-2015	1,404,37	101.28	13.8
2	2015-2016	1,164,00	282.7	4.11
3	2016-2017	1,103,16	178.21	6.19
4	2017-2018	1,170,41	534.05	2.19
5	2018-2019	1,650,28	581.75	2.83

Source: primary data

Interpretation

The table shows the working capital turnover ratio for the financial year from 2014-2015 to 2018- 2019.while comparing 5 year results it lines between 2.19 to 13.8. The working capital turnover ratio is lower it indicated that the working capital is not efficiently utilized.

Net profit ratio

The net profit ratio is the overall measure of the firm's ability to turn each rupee of income from service in net profit. High net profit ratio will help the firm service in the fall of income from service rise in cost of production or declining dement

S NO	YEAR	NET PROFIT In lakhs	NET SALES In lakhs	RATIO %
1	2014-2015	103.49	1,404,37	0.73
2	2015-2016	99.86	1,164,00	0.08
3	2016-2017	-47.72	1,103,16	-0.04
4	2017-2018	87.43	1,170,41	0.74
5	2018-2019	90.38	1,650,28	0.054

Source: primary data

Interpretation

The table shows the net profit ratio for the financial year from 2014-2015 to 2018-2019.while comparing 5 year results it lines between 0.08 to -0.04. The net profit ratio is lower it indicated that the net profit ratio is not efficiently utilized.

FINDINGS

- Thesharecapitalofthecompanyremainsconstantduringtheperiodwhichindicatesthatthefirm is heavily depending upon the outside sources for financing the activities of the firm. It can add company in longrun
- The financial position of the company is stable. The company always trying to maintain low cash position by investing more to inventories andreceivables.
- In 2017 the net profit of the company declined to 90.380 lakhs this is mainly due to work in progress changes and financecost

SUGGESTION

- The company may increase the operating leverage by taking high degree of operating risk to achieve effective and efficiency in utilization of production resources.
- The company may increase the sales if it attempts to move into more export market.
- The company may increase financial leverage by taking high degree of financial risk to enhance the returns to shareholders.
- The company may reduce the operating inefficiencies through effective utilization of all the resources.
- There is an urgent need to upgrade and modernize the plants for improving the profitability of the company.
- The company can improve their value of fixed asset it helps to get loan from financial institution.
- They have to use their previous year profits than only the company debt burden will comes to down.

CONCLUSION

Finance is the blood of every business. Without effective financial management a company cannot win in this competitive world. A prudent finance manager has to measure the capital structure policy followed by the company. Endraanimpex continues to play an important role in the industrial development of country. There is every possibility that company would establish for itself a permanent and unshakable position in the industrial map of India and also in the emerging international market for cotton.

Study reveals that company takes only moderate operating and low financial risk. The proper planning of use of leverage and ratio coverage in financial management will improve the cost competitiveness of the company. This indirectly supports the company to emerge as one of the domain player in global market

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