

Management Efficiency Ratios (MER) of Britannia Company Ltd.

¹ Mrs. B.Saranya, ² Dr.S.Sekar, ³ Dr.M. Uma Maheswari, ⁴ Mr.P.Saravanapandi

¹Research Scholar, Bharathidasan University, ²Principal, Meenakshi Ramaswamy College of Arts and Science, ³Assistant Professor, Shrimati Indira Gandhi College, ⁴Associate Professor, Department of Management Studies, SNMV College of Arts and Science, Coimbatore

Abstract

Ratios are actually is an expression of relationship between two terms in mathematical terms. Management efficiency ratio helps to measure the company to use its assets and manage the liabilities effectively. They mainly measure how the company assets can be used to generate revenue and how to manage the assets and use it productively. This helps to analyse the ratio of one company with another competitor in the same industry. Businesses mostly exist for the purpose of generating profit and satisfying the consumers' needs. It is the role of the management to ensure such objectives are attained, and hence must gather sufficient data to inform them how the business is doing. Britannia Company Ltd comes under the sector of food Processing. Food industry has huge opportunities for investment, and stimulates growth in the competitive environment. This paper focuses particularly on Britannia Company Ltd pertaining to Management efficiency ratios. This analysis is a medium to understand the financial weakness and soundness of an organization. Keeping in mind the objective of analysis, I have selected appropriate data to calculate appropriate ratios.

Keywords: Ratios, Evaluate, Profit, Loss, Money, Turnover

Introduction - Management Efficiency Ratios

Management efficiency ratio provides the role of management in the industry to the investor, the management required to be efficient to handle any kind of situation in the company and the management must aware of the bottom line – “profit line”.

Every situation in the business brings two possibilities:

First how to overcome and other is the situation crush them out.

If the management is efficient to tackle the daily movements of the situation, the company itself make money that was management efficiency ratio.

Some of the retail-based companies, they use to sell the product at the low margin with high volume, that how an efficient company works.

Literature Review

Bansal and Gupta (1985) 2 in their study entitled, “Financial Ratio Analysis and Statistics” enlightened that the coefficient of variation in the study period had a wide gap varying between 7.1 per cent and 51.3 per cent for current ratio and ratio of fixed assets to sales. The correlation of components of short term liquidity ratio generally possesses low correlation as against long term solvency ratio components but the components of both ratios independently possess quite satisfactory correlation in cotton textile industry. The profitability ratio elements in the industry also have quite high correlation in cotton industry as compared to synthetic industry.

Gangadhar (1998) 10 has made an attempt on “Financial Analysis of Companies in Criteria: A Profitability and efficiency focus” one of the objectives of the study is to analyze the liquidity position of the companies and to point out the factors responsible for such a position. It is concluded that the liquidity position was quite alarming since these are facing chronic liquidity problems. Their proportion current assets in relation to the current liabilities are very low. 23 It is suggested that, they may be improved by reducing excessive burden of current liabilities or increasing the level of current assets depending upon the requirements

Feroz & et al. (2003) 16 Ratio analysis is a commonly used analytical tool for verifying the performance of a firm. While ratios are easy to compute, which in part explains their wide appeal, their interpretation is problematic, especially when two or more ratios provide conflicting signals. Indeed, ratio analysis is often criticized on the grounds of subjectivity that is the analyst must pick and choose ratios in order to assess the overall performance of a firm. In this paper they demonstrate that Data Envelopment Analysis (DEA) can augment the traditional ratio analysis. DEA can provide a consistent and reliable measure of managerial or operational efficiency of a firm. They test the null hypothesis that there is no relationship between DEA and traditional accounting ratios as measures of 25 performance of a firm. Their results reject the null hypothesis indicating that DEA can provide information to analysts that is additional to that provided by traditional ratio analysis. They also apply DEA to the oil and gas industry to demonstrate.

Anshan Lakshmi (2003) 17 made “A Study of the Financial Performance with Reference to Steel Industries Kerala Ltd”. This study covered from 1977-1998 to 2001-2002. The objectives of the study was to analyze and evaluate the working capital management, to analyze the liquidity position of the company, to evaluate the receivables, payables and cash management and to suggest ways and means to improve the present date of working capital. The major tools used for the analysis said that the working capital management suggested that the inventory management have to be corrected

Vivek Kumar and Major Singh (2013)47 conducted a study on “Profitability of Indian Banks – A Comparative Study of SBI and HDFC”. The study revealed that the various profitability ratios of two banks as the measure of profitability. The common denominator used for developing the various profitability ratios is business volume (deposits plus advances). The study analyses the published five-year data from 2007-08 onwards for the two largest banks, i.e., SBI- the largest public sector bank and HDFC- the largest private sector bank. The

comparative analysis of the profitability of the two banks clearly reveals that there is a large difference between the profitability of the two banks. HDFC's profitability is more than that of SBI.

Moses Joshuva Daniel (2013) 49 in his study "A Study on Financial Status of TATA Motors Ltd" stated the main objectives to analyzing the overall financial status of the TATA Motors Ltd by using various financial tools. In order to analyze financial status in terms of Profitability, Solvency, Activity and Financial stability various accounting ratios have been used. It is cleared from the study that 37 the company's financial performance is satisfactory. The company has stable growth and it shows a greater status in all the areas it works. The company has been suggested to reduce the expenditure as it increases every year. Decrease in expenses will increase the profitability.

Objective

To study the management efficient ratios of Britannia Company Ltd.

Research Purpose

To generate insights about the Management Efficiency Ratios of Britannia Company Ltd

Data Collection

All data is collected from Secondary sources Such as websites and journals

Limitations

Company data is limited to three years only from March 2016 – March 2018

Management Efficiency Ratios Explained

Inventory Turnover Ratio

The inventory turnover ratio, also known as the stock turnover ratio, is an efficiency ratio that measures how efficiently inventory is managed.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Debtors Turnover Ratio

Also called as Receivables Turnover Ratio. Its shows how quickly the credit sales is converted into cash. This ratio measures the efficiency of a firm in managing and collecting the credit issued to the customers.

Investments Turnover Ratio

The **investment turnover ratio** helps us measure the ability of a company to generate revenues using the debt and capital that have been invested in the business.

There are two ways a company can raise money to support its operations: it can use both debt financing (i.e. taking a loan) and equity financing (i.e. issuing shares).

This ratio can take these aspects into account, thereby help you determine how well the company is able to convert its shareholders' equity and debt into dollars of sales.

$$\text{Debtors Turnover Ratio} = \frac{\text{Sales Revenue}}{(\text{Share Holders Equity} + \text{Debt Outstanding})}$$

Debt outstanding includes both long-term debt and short-term debt (such as the current portion of long term debt and short term liabilities).

Debt Outstanding = Long-term Debt + Current Portion of Long-term Debt + Short-term Securities

Shareholders' equity consists of funds raised by issuing common stock and the retained earnings

Fixed Assets Turnover Ratio

A fixed asset turnover ratio is an activity ratio that determines the success of a company based on how it's using its fixed assets to make money. It is used to evaluate the operating performance of a business.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Revenue}}{\text{Average Fixed Assets}}$$

Net Revenue = Gross Revenue – Sales Returns

$$\text{Average Fixed Assets} = \frac{\text{Opening Balance of Fixed Assets} + \text{Ending Balance of Fixed Assets}}{2}$$

Total Assets Turnover Ratio

The total asset turnover ratio compares the sales of a company to its asset base. The ratio measures the ability of an organization to efficiently produce sales, and is typically used by third parties to evaluate the operations of a business.

$$\text{Total Asset Turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

Asset Turnover Ratio

The asset **turnover ratio** measures a company's efficiency and productivity. Calculated by dividing a company's sales by its **total assets**, it indicates the amount of revenues, or sales, a company generates for each dollar of **assets**. It is the higher the asset **turnover ratio**, the more efficient a company.

$$\text{Asset Turnover Ratio} = \frac{\text{Net Sales Revenue}}{\text{Average Total Assets}}$$

Average Raw Material Holding

Average Raw Material Holding is mainly analyzed to know the working capital limit.

$$\text{Holding of Average Raw Material} = \frac{\text{Average Stock of Raw Materials}}{\text{Raw Material Consumption}} \times 12$$

Average Finished Goods Held

Holding Period of Finished Goods Held is dependent on the length of the sales cycle. It is the period where the finished goods are kept in warehouse before Sales.

$$\text{Average Finished Goods Held} = \frac{\text{Average Stock of Finished Goods}}{\text{Cost of Sales}} \times 12$$

Number of Days in Working Capital

Day's in working capital is a very important performance indicator of efficient working capital management. Days of working capital expresses how much of net operating working capital is invested for achieving one dollar of daily sales. From opposite angle, we can also express it as how many days a company takes to convert its working capital into revenue.

$$\text{Number of Days in Working Capital} = \frac{\text{Operating Current Assets} - \text{Operating Current Liabilities}}{\text{Annual Sales}} \times 365$$

Table 1 Britannia Company Pvt Ltd – Management Efficiency Ratios

Particulars	Years		
	March 2018	March 2017	March 2016
Management Efficiency Ratios			
Inventory Turnover Ratio	15.78	14.41	21.29
Debtors Turnover Ratio	52.16	72.19	89.46
Investments Turnover Ratio	15.78	14.41	21.29
Fixed Assets Turnover Ratio	7.17	8.53	6.84
Total Assets Turnover Ratio	2.87	3.27	4.92
Asset Turnover Ratio	3.19	3.93	5.40
Average Raw Material Holding	--	--	--
Average Finished Goods Held	--	--	--
Number of Days In Working Capital	17.48	25.04	1.57

Source: Moneycontrol.com

Inference

Inventory Turnover ratio is high in the year March 2016 and low in the year march 2018

Debtors Turnover ratio is high in the year march 2016 and low in the year march 2017

Investments Turnover Ratio is high in the year March 2016 and low in the year march 2017

Fixed Assets Turnover Ratio is high in the year March 2017 and low in the year march 2016

Total Assets Turnover Ratio is high in the year March 2016 and low in the year march 2018

Asset Turnover Ratio is high in the year March 2016 and low in the year march 2018

Suggestions and Conclusions

Low inventory turnover ratio state that there is poor management inventory and low sales high inventory turnover ratio states strong sales or insufficient inventory. High Inventory Turnover ratio determines Strong sales that leads to success in business whereas insufficient inventory leads to loss in business.

In debtor's turnover ratio – higher the ratio, better is the credit management of the firm. It signifies speedy and effective collection. Lower turnover indicates late and ineffective collection.

Investment Turnover Ratio - the higher the investment turnover ratio, the more efficient the company is in generating revenues from its debt and equity capital.

Investment Turnover ratio - Asset Turnover Ratio - In general, the higher the ratio -- the more "turns" -- the better. But whether a particular ratio is good or bad depends on the industry in which your company operates. Some industries are simply more asset-intensive

Fixed Assets Turnover Ratio – High ratio means higher efficiency in utilizing the assets. Low Ratio indicates the inability of a firm to utilize the fixed assets efficiently. Ideal Ratio means no benchmark. Can be compared with industry average and own past track.

Total Assets Turnover Ratio - Ideally, a company with a high total asset turnover ratio can operate with fewer assets than a less efficient competitor, and so requires less debt and equity to operate. The result should be a comparatively greater return to its shareholders.

Number of days in Working Capital -Lower the days of working capital, better is the efficiency of working capital management and vice versa.

Reference

Websites

<https://financialcontrol.in/management-efficiency-ratio/>

<https://www.myaccountingcourse.com/financial-ratios/inventory-turnover-ratio>

<https://corporatefinanceinstitute.com/resources/knowledge/finance/inventory-turnover-ratio/>

<https://www.investopedia.com/ask/answers/070914/how-do-i-calculate-inventory-turnover-ratio.asp>

<https://businessjargons.com/debtors-turnover-ratio.html>

<http://www.businessdictionary.com/definition/days-working-capital.html>

<https://investinganswers.com/financial-dictionary/financial-statement-analysis/days-working-capital-5951>

<https://www.investopedia.com/video/play/days-working-capital/>

<http://financialmanagementpro.com/operating-cycle/>

<http://financeformulas.net/Days-in-Inventory.html>

<https://msu.edu/course/prr/473/oldstuff/Inventory%20Management.htm>

<https://wealthyeducation.com/total-asset-turnover-ratio/>

<https://www.accountingtools.com/articles/2017/5/5/fixed-asset-turnover-ratio>

<https://www.valuepenguin.com/small-business/what-is-asset-turnover-ratio>

<https://blog.udemy.com/efficiency-ratios/>

http://shodhganga.inflibnet.ac.in/bitstream/10603/71552/9/09_chapter%202.pdf

Standard Publications

Vivek Kumar and Major Singh, “Profitability of Indian Banks – A Comparative Study of SBI and HDFC”. International Journal of Research in Finance & Marketing, Volume 3, Issue 1, February 2013, Pp.11-20. 4

Dharmaraj, A. and Kathirvel, N, “Analysing the Financial Performance of Selected Indian Automobile Companies”. Global Research Analysis, Volume: 2, Issue 4, April 2013, Pp 18-20. 49.

Moses Joshua Daniel, A, “A Study on Financial Status of Tata Motors Ltd”, Indian Journal of Applied Research, Volume 3, Issue 4, April 2013 ISSN - 2249-555X, Pp.320-322. 50.

Kavitha, K.S, and Palanivelu. P, “An Analysis on Financial Health of NSE Listed Steel Industries”. International Journal of Scientific Research, Volume 2, Issue No.9, September 2013, ISSN No 2277-8179, Pp. 46-48

