A Study on Capacity Utilization with Special Reference to Car Company

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Abstract

The study has envisages that the ratio is decreased to 4.04 per cent during 2016-17. A change in the net profit ratio of a business concern over a period of time might throw light on the cause of such a change. Further it has indicates that the ratio is decreased to 3.31per cent during 2016-17. Return on total assets ratio measures the profitability and efficiency of a business concern. This ratio show how the total assets at the disposal of management of company have been used to generate income. Lower the ratio is not efficiency to management. The study reveals that the ratio is increased to 1.21times during 2016-17. Higher the ratio, the better it is, since it indicates that more sales are being made by a rupee of investment in stocks. The researcher has points out that the ratio is slightly decreased to 2.86 times during 2016-17. This ratio shows the decreases in profitability and efficiency of the management. Lower the ratio indicates the under trading capacity of capital in business. The study has found that the ratio is increased to12.13times is increased when compared during 2015-16. This ratio is highly useful in measuring the efficiency and profit earning capacity of the company. This ratio is especially useful for manufacturing concerns where sales are produced largely by the capital invested in fixed assets. The study has quotes that the ratio is fluctuated over the years. This ratio ensures whether the capital employed has been effectively used or not. It also shows the profitability and efficiency of management.

Introduction

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions” and “the relationship between two or more things”. In financial analysis, a ratio is used as a benchmark for evaluation the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. For example, an Rs.5 core net profit may look impressive, but the firm’s performance can be said to be good or bad only when the net profit figure is related to the firm’s Investment.

The relationship between two accounting figures expressed mathematically, is known as a financial ratio (or simply as a ratio). Ratios help to summarize large quantities of financial data and to make about the firm's financial performance. For example, consider current ratio. It is calculated by dividing current assets by current liabilities; the ratio indicates a relationship- a quantified relationship between current assets and current liabilities. This relationship is an index or yardstick, which permits a quantitative judgment to be formed about the firm's liquidity and vice versa. The point to note is that a ratio reflecting a quantitative relationship helps to form a qualitative judgment. Such is the nature of all financial.

Net Profit Ratio

This ratio is also known as "the net profit to sales ratio" or "net profit margin". It measures the rate of the net profit per unit of sales. It is determined by dividing the net profit to the net sales for the period. Its formula is as follows:

$$\text{Net profit ratio} = \frac{\text{Net profit}}{\text{Net sales}} \times 100$$

Return on Total Assets

This ratio is also known as "the profit to assets ratio". It is calculated to measure the productivity of total assets. It can be calculated in way as given below:

$$\text{Return on total assets} = \frac{\text{Net profit after tax}}{\text{Total assets}} \times 100$$

Operating Ratio

This ratio measures the extent of cost incurred for making the sale. In other words, this ratio matches cost of goods sold plus other operating expenses, on the one hand, with net sale on the other. It is calculated as follows

$$\text{Operating ratio} = \frac{\text{Cost of goods sold + operating expenses}}{\text{NET SALES}} \times 100$$

Return on Shareholders Fund

This ratio establishes the profitability from the shareholders point of view. It is calculated by dividing the net profits after interest and tax by the shareholders' funds. Thus:

$$\text{Return on shareholders' fund} = \frac{\text{Net profit after interest and tax}}{\text{Shareholders' fund}} \times 100$$

Stock Turnover Ratio

This ratio is also known as "inventory turnover ratio" or "stock velocity ratio". It establishes relationship between average stock at cost and cost of goods sold. It is calculated by applying the following formula:

$$\textbf{Stock turnover ratio} = \frac{\textbf{Cost of goods sold}}{\textbf{Average stock}}$$

Owned Capital Turnover Ratio

Managerial efficiency is also calculated by establishing the relationship between cost of sales or sales with the amount of capital invested in the business.

$$\textbf{Owned capital turnover ratio} = \frac{\textbf{Sales}}{\textbf{Shareholders fund}}$$

Working Capital Turnover Ratio

Working capital means excess of current assets over current liabilities. Working capital is closely related to sales. Working capital turnover ratio indicates the number of times the working capital is converted into sales. It is calculated with the help of the following formula:

$$\textbf{Working capital turnover ratio} = \frac{\text{Sales}}{\text{Net working capital}}$$

Fixed Asset Turnover Ratio

This ratio establishes the relationship between sales or cost of goods sold and fixed assets. It determines whether the investments are made in fixed assets has really helped in generating sales. It is used to effect improvement, if any, in sales due to increased investment in fixed assets. It is calculated by using the following formula:

$$\textbf{Fixed assets turnover ratio} = \frac{\text{Sales}}{\text{Net fixed assets}}$$

Capital Turnover Ratio

This ratio shows the efficiency of capital employed in the business by computing how many times capital is turned over in a stated period. This ratio is calculated by using the following formula:

$$\text{Capital turnover ratio} = \frac{\text{Sales}}{\text{Capital employed}}$$

Current Ratio

This ratio is also called 'working capital ratio'. It is used to assess the short-term financial position of the business concern. In other words, it is an indicator of the company's ability to meet its short-term obligations. It matches the total current assets of the company against its current liabilities. It is calculated on the basis of the following formula:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Objectives

- To study the working capital management of Motor Corp Company,
- To study the existing system of working capital management comparing of cash management, break even analysis and leverages separately and
- To suggest existing faulty practices have to remove and revamp the Motor Corp Company.

Table: 1: Gross Profit Ratio in Car Company during 2012-17

Sl. No.	Year	Cross Profit (in Crores)	Net Sales (in Crores)	Ratio (in per cent)
1	2012-2013	2037.79	2214.07	92.03
2	2013-2014	2218.16	2453.65	90.40
3	2014-2015	2799.45	3129.99	89.43
4	2015-2016	3252.36	3659.32	88.87
5	2016-2017	3209.55	3642.25	88.11

Source: Annual Report 2012-2017

From the above Table 1 shows that the gross profit ratio is 88.11per cent. High gross profit ratio implies better profitability of the products sold by the business concern.

Table 2: Net Profit Ratio in Car Company during 2012-17

Sl. No.	Year	Net Profit (in Crores)	Net Sales (in Crores)	Ratio (in per cent)
1	2012-2013	2037.79	2214.07	3.749
2	2013-2014	2218.16	2453.65	5.277
3	2014-2015	2799.45	3129.99	7.709
4	2015-2016	3252.36	3659.32	6.697
5	2016-2017	3209.55	3642.25	4.041

Source: Annual Report 2012-2017

From the above Table 2 inferred that, the ratio is decreased to 4.04per cent during the year 2016-17. A change in the net profit ratio of a business concern over a period of time might throw light on the cause of such a change.

Table 3: Return on Total Assets in Car Company during 2012-17

Sl. No.	Year	Net Profit After Tax (in Crores)	Total Assets (in Crores)	Ratio (in per cent)
1	2012-2013	72.18	1578.04	4.57
2	2013-2014	81.21	2048.15	3.96
3	2014-2015	169.66	2385.22	7.11
4	2015-2016	180.09	2642.45	6.81
5	2016-2017	103.96	3137.92	3.31

Source: Annual Report 2012-2017

From the above Table 3 has indicates that the ratio is decreased to 3.31per cent during 2016-17. Return on total assets ratio measures the profitability and efficiency of a business concern. This ratio show how the total assets at the disposal of management of company have been used to generate income. Lower the ratio is not efficiency to management.

Table 4: Operating Ratio in Car Company during 2012-17

Sl. No.	Year	Cost of Goods Sold + Operating Expenses (in Crores)	Net Sales (in Crores)	Ratio (in per cent)
1	2012-2013	2666.58	2061.09	129.37
2	2013-2014	2952.83	2345.64	125.88
3	2014-2015	3729.53	2966.17	125.71

4	2015-2016	4361.72	3458.97	126.09
5	2016-2017	4377.44	3390.37	129.11

Source: Annual Report 2012-2017

It is inferred that from Table 4, the ratio is increased to 129.11 compared to previous year (2015-16). Higher operating ratio leaves a lesser margin for meeting non-operating expenses, creation of reserves and payment of interest and dividend.

Table 5: Return on Shareholders Fund in Car Company during 2012-17

Sl. No.	Year	Net Profit Interest and Tax (in Crores)	Shareholders' Fund (in Crores)	Ratio (in per cent)
1	2012-2013	72.18	736.95	9.79
2	2013-2014	81.21	816.90	9.94
3	2014-2015	169.66	991.40	17.11
4	2015-2016	180.09	1114.96	16.15
5	2016-2017	103.96	1181.34	8.80

Source: Annual Report 2012-2017

Table 5 clearly indicates that the ratio is fluctuated over the years. This ratio shows that extend of shareholders fund have been used by the company. It helps the shareholders and potential investors to judge the earning of company in relation to others and adequacy of the return on shareholders' funds.

Table 6: Stock Turnover Ratio in Car Company during 2012-17

Sl. No.	Year	Cost of Goods Sold (in Crores)	Average Stock (in Crores)	Ratio (in Times)
1	2012-2013	176.28	233.81	0.75
2	2013-2014	235.49	294.39	0.79
3	2014-2015	330.54	387.69	0.85
4	2015-2016	406.96	409.51	0.99
5	2016-2017	432.3	356.77	1.21

Source: Annual Report 2012-2017

Table 6 envisages that the ratio is increased to 1.21times during the year (2016-17). Higher the ratio, the better it is, since it indicates that more sales are being made by a rupee of investment in stocks.

Table 7: Owned Capital Turnover Ratio in Car Company during 2012-17

Sl. No.	Year	Sales (in Crores)	Shareholders Fund (in Crores)	Ratio (in Times)
1	2012-2013	2061.09	736.95	2.79
2	2013-2014	2345.64	816.90	2.87
3	2014-2015	2966.17	991.40	2.99
4	2015-2016	3458.97	1114.96	3.10
5	2016-2017	3390.37	1181.34	2.86

Source: Annual Report 2012-2017

It is inferred that from Table 7, the ratio is slightly decreased to 2.86times during the year (2016-17). This ratio shows the decreases in profitability and efficiency of the management. Lower the ratio indicates the under trading capacity of capital in business.

Table 8: Working Capital Turnover Ratio in Car Company during 2012-17

Sl. No.	Year	Sales (in Crores)	Net Working Capital (in Crores)	Ratio (in Time)
1	2012-2013	2214.07	184.30	12.00
2	2013-2014	3129.65	244.03	10.05
3	2014-2015	3129.99	268.18	11.66
4	2015-2016	3659.32	420.40	8.72
5	2016-2017	3642.25	300.16	12.13

Source: Annual Report 2012-2017

From the above Table 8 clearly brings out that the ratio is increased to12.13times is increased when compared during the year (2016-17). The higher the ratio, the lower is the investment in working capital and greater are the profits. A high working capital turnover ratio indicates the working capital not being efficiency utilized.

The following Table 9 explains that the ratio decrease to 5.76 during the year (2016-17). This ratio is highly useful in measuring the efficiency and profit earning capacity of the company. This ratio is especially useful for manufacturing concerns where sales are produced largely by the capital invested in fixed assets.

Table 9: Fixed Asset Turnover Ratio in Car Company during 2012-17

Sl. No.	Year	Sales (in Crores)	Net Fixed Assets (in Crores)	Ratio (in Time)
1	2012-2013	2214.07	514.15	4.30
2	2013-2014	3129.65	527.63	4.65
3	2014-2015	3129.99	560.84	5.58
4	2015-2016	3659.32	606.51	6.03
5	2016-2017	3642.25	631.61	5.76

Source: Annual Report 2012-2017

Table 10: Capital Turnover Ratio in Car Company during 2012-17

Sl. No.	Year	Sales (in Crores)	Capital Employed (in Crores)	Ratio (in Time)
1	2012-2013	2214.07	1182.48	1.87
2	2013-2014	3129.65	1564.03	1.56
3	2014-2015	3129.99	1766.96	1.77
4	2015-2016	3659.32	1581.78	2.31
5	2016-2017	3642.25	1863.99	1.95

Source: Annual Report 2012-2017

Table 10 envisages that the ratio is fluctuated over the years. This ratio ensures whether the capital employed has been effectively used or not. It also shows the profitability and efficiency of management.

Conclusion

The study has concludes that the gross profit ratio is 88.11per cent. The study quotes that the ratio is decreased to 4.04per cent during the year 2016-17. Further it has decreased return on total assets ratio measures the profitability and efficiency of a business concern to 3.31per cent during 2016-17. This ratio show how the total assets at the disposal of management of company have been used to generate income. Lower the ratio is not efficiency to management.

Therefore the researcher has suggested that the high gross profit ratio implies better profitability of the products sold by the business concern. A change in the net profit ratio of a business concern over a period of time might throw light on the cause of such a change. Higher operating ratio leaves a lesser margin for meeting non-operating expenses, creation of reserves and payment of interest and dividend. Further it has indicates that the ratio is fluctuated over the years. This ratio shows that extend of shareholders fund have been used by the company. It helps the shareholders and potential investors to judge the earning of company in relation to others and adequacy of the return on shareholders' funds.

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