CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal had adopted traditional concept until 20th century. Nepal was depending upon agriculture. Agriculture was measure occupation of Nepalese people. All people realized on agriculture sector to fulfill their needs, economy were based on batter system. People had not known about finance because Nepal had been ruled by autocrats for long time. They did not think about national development. Neither they wanted to develop social benefit nature of business nor they permitted people to lunch their business independently. People were kept in limited area. People did not know about the world due to unavailability of communication. After establishment of democracy, people adopted new technology to develop agriculture production. Some industries based on agriculture had been established. To know about financial position of industry some recording system were developed on traditional concept. Slowly communication covered worldwide. New system and technology had come to know for the improvement of business. New accounting and planning system are developed indicating financial figure.
By knowing the develop countries, economic growth, the government of Nepal took PEs as a tool of economic growth. The government had made periodic sector. As result agro-based industries were established within the country at least to substitute import or industrial consumable goods. The basic goal of government was to generate revenue by operating industrial units and creating employment opportunity through this sector. It can be said in our language that food is for physical development just like public enterprises are for economic growth. Industrialization is a major instrument of progress, modernization and social change in Nepal. It is one of the major tools with the aid of which the various circle of backwards and poverty can be broken.

Public enterprises in Nepal emerged comparatively recently. Most of these enterprises came into existence during the Second, Third and Fourth plans in the 1960s and the first half of the '70s. With the initiation of the first five year plan in 1956, public enterprises have been promoted in Nepal. For the first time the industrial policy of 1957 formally recognized the responsibility of the government in "promoting, assisting and regulating"

industrial development in the country and the First Plan intended to establish state monopolies in the fields of transportation, telecommunication, hydro-electric power generation and irrigation, and to run some big industries, such as cement, sugar, cigarettes, textiles, iron and steel (GON, 1956:55). The emergence of public enterprises was stimulated by the inability of the private sector to adequately fulfill` national objectives.

The corporate form of public enterprise appeared only in 1952 when the government that came to power after the revolution of 1951 decided to go for the majority holding—from 40% share ownership to 51% in Nepal Bank Limited, the only commercial bank operating in the country. The objective was clearly to control the financial market. Three struggling units (jute, cement and tea) were taken over by the government and two electrical companies were nationalized. Most of the enterprises were either established by the government or established by the donor countries (Manandhar, 1993:46). Similarly, at the same time India was preparing its first five-year plan after it got independence. The plan presented to the government by the Planning Commission in December, 1952 indicated the need for "a rapid expansion of the economic and social responsibilities of the state" to satisfy the "legitimate expectations of the people". It stated, however, that this "need not involve complete nationalization of the means of production or elimination of private agencies in agriculture or business and industry". Only a "progressive widening of the public sector and a reorientation of the private sector to the needs of planned economy" was envisaged (Narain, 2003:21). Hence, the ideology of the 38 controlling the economy by the government was obvious at that time, not only in Nepal but also in its neighboring countries. There was successive growth in public enterprises with the exercise of development planning in the country.

Public enterprises in Nepal were established mainly to serve the following objectives:

- Infrastructural facilities and services;
- Basic consumer and development goods;
- Adequate supplies of essential goods;
- Managerial support to needy enterprises; and
- Entrepreneurial support to needy enterprises (Shrestha, 1990:73).

The entire process of public enterprise growth in Nepal can be divided into four periods—

i. growth period (1952-1975),
ii. period of reconciliation (1975-1980),
iii. period of restraint (1980-1990), and
iv. promise of privatization (after 1990) (Manandhar, 1993:46).

The following table and chart provide an overview of the growth of public enterprises in Nepal during the various plan periods:

Table 1.1

Growth of Public Enterprise in Nepal during Various Plan Periods

Periodic plan	Periodic Plan	Change
Prior to 1956	1	-
First Plan (1956-61)	8	7
No Plan period (1961-62)	11	3
Second Plan (1962-65)	22	11
Third Plan (1965-70)	34	12
Fourth Plan (1970-75)	61	27
Fifth Plan (1975-80)	59	-2
Sixth Plan (1980-85)	54	-5
Seventh Plan (1985-90)	63	9
No Plan period (1990-92)	62	-1
Eighth Plan (1992-97)	46	-16
Ninth Plan (1997-2002)	43	-3

(Source: National Planning Commission, Various Plan Documents2063/64)

The above table shows that the majority of public enterprises were established during the sixties and early seventies (1956-1975). The main reason of this was due to the political regime at the time, which focused on the planned economic policy, in which the state was seen as the dominant player, rather than the private sector (Pandey, 1999). However, unlike in most developing countries, the growth of Nepalese public enterprises was not based on the nationalization of private companies, but in many areas new enterprises were created, with the support of external donors, including China, former USSR, the Netherlands, Japan and multinational agencies. In other cases, units already existing as

government departments were converted into statutory corporations and other kinds of autonomous bodies.

From this evident, PEs Company has become necessary to analyze the nature of these enterprises and privatize them. So it has been planned by HMG to privatize the sick PEs on a phase wise basis. In the first phase, sixteen public enterprise enterprises are privatized in the end of the eight-year plan. During the ninth plan, HMG will take an action to privatize thirty numbers PEs Company. It is because of poor profitability records of Nepalese PEs during past few years. A cement industry has great use proposed and scope now a day. The large – scale natural resource user Udaypur Cement Industry limited, which is situated in Sindhuli, jalpa-chilaune village Udaypur producing cement. It is established in 1987 AD Proper.

1.2 Focus of the Study

A sound financial performance is important for the growth of PES. It is necessary that financial management of an enterprise must be appropriate to yield at fair rate of return on capital employed in them. Any mistake made by financial management adversely affects the financial conditions of PES. In this regard, it is required to measure the financial performance of the enterprise from time to time.

Udayapur cement industries limited (UCIL) is a growing cement of grater, national important in the area of industrialization. But, the study relating to UCIL and its financial performance is very scarce. Thus, the importance of this study lies mainly filling a research gap in financial performance of UCIL. Firstly establishment of Himalaya Cement Company (HCC) and Hetauda Cement Industry Limited (HCIL) are on the way to pose no threat to this organization. Thus, this kind of study may help it to run in competitive market.

Capacity of Nepalese Cement Industries

S.N.	Name of Company	Annual Capacity	Utilization of Capacity
1	Udayapur Cement Industries Ltd.	2,77,200mt	35.94%
2	Hetauda Cement Industries Ltd.	2,60,000mt	49.55%

(Source: - Ministry of Finance, Economic Surveys of GON 2064/65)

From the above table Udayapur cement Industries Ltd is the largest firm of the Cement Industry on the basis of annual production capacity. UCIL is the modern industries of Nepal. It is one of the large-scale public industries of Nepal. It has highly modern production system. This can produce quality of Cement with minimum environmental pollution.

The focus of the study is on the determination of financial soundness of Udayapur Cement Industries Limited on the basis of financial accounts of six periods.

The focus of the study UCIL is to produce and distributed the high quality cement. The establishment of the industry, provides employment opportunities, help to mobilize domestic resources like clay, lime, stone, hydropower etc. it also helps to improve the balance of payment position of country by saving variable foreign exchange through import substitution. UCIL help to make the county self dependent such as import construction materials as cement there by facilitating the task of national development. Thus, survival of growth of UCIL is essential for the benefit of the county, as one of the important PES of our county. UCIL should achieve financial soundness by generating surplus for its own expansion of diversification as well as to contribute to the government treasury.

This study focuses to find out the financial soundness of the firm, financial position must be analyzed. “Financial position analysis shows the strength and weakness of the firm by properly establishing relationships between the item of balance and profit & loss A/C.

1.3 Statement of the Problem

Nepal is a rich county in natural resources but the people are poor. To use natural resources and remove poverty, Public enterprises (PEs) company is the too useful. Country can go ahead using those types to tools. Industrialization is the backbone of economic development of the county. It helps to built infrastructure for social and economic development by supplying goods and services as well as providing employment opportunities UCIL is successful to fulfill its objectives only to some extent.

Success is any business enterprises is measured by capacity utilization and surplus generation but the financial performance of manufacturing enterprises in Nepal are quite dismal and have not seen able to contribute towards the generation of the surplus. Most of Nepalese enterprises are suffering from heavy losses due to less utilization of capacity and mismanagement. The statement of problem is that the industry has been suffering from great loss during the period of 2061/062 to 2065/066 B.S. It is so because of high cost, unscientific inventory management, unreasonable pricing policy etc. Present conditions of Nepalese public enterprises are presented at the following table.

Sector wise PEs Nepal

S.N.	Sector	No. of. PEs	No. of Loss Making PEs
1.	Industrial sector	13	11
2.	Financial sector	8	1
3.	Social sector	5	2
4.	Service sector	8	4
5.	Public utility sector	3	1
6.	Trade sector	6	3
Total		43	22

(Source: - Ministry of finance, Sarkari Sasthan Sambandhi Karya Pragati tatha Laxya Bibaran 2064/65)

The table shows that the almost all of PEs established in Industrial sector facing a huge loss. Moreover, the following table indicates the status of Nepalese PEs in terms of profitability and capital employment during fiscal year 2055/056B.S.

Profitability and Capital Employment of Nepal PEs

(Rs. in Lakhs)

S.N.	Sector	Operating Profit	Net capital Employment	Rate of Return on Capital Employment
1	Industrial sector	-4,846	62,876	-7.71%
2	Financial sector	2,652	11,074	23.95%
3	Social sector	-903	4,975	-18.15%
4	Service sector	-262	9,472	-2.77%
5	Public utility sector	25,557	6,65,455	3.84%
6	Trade sector	29033	8,36,856	3.47%
Total		29,033	8,36,856	3.47%

(Source: - Ministry of finance, Sarkari Sasthan Sambandhi Karya Pragati tatha Laxya Bibaran 2064/65)

From the above table, PEs Company produce on average of 3.47% returns on capital. In case of industries sector the rate of return of capital employed is highly negative in considering the government directive of generating 10% return on capital employed by industry.

Particularly, UCIL has been able to generate operating profit net capital employed and rate of return on capital employed Rs. -1.169Lakhs, Rs. 50,457Lakhs and -2.32% respectively during the fiscal year 2055/056 B.S. Thus, the above facts lead to the conclusion that financial efficiency of Nepalese PEs has not been satisfactory in accomplished. UCIL is one of the PEs Company in industrial sector whose financial position is getting worst and worst day-by-day. So, an attempt is being made why UCIL has been financial weak.

1.4 Objectives of the Study

The basic objective of this study is to evaluate of financial performance of UCIL. To some extent, their objective has been fulfilled. To know about objectives, this study is conducted and trends to show the financial position of UCIL and the recommendation based upon the finding.

The specific objectives are:

1. To examine the liquidity position of UCIL.
2. To perform trend analysis of financial items of UCIL from 2058/59 B.S. to 2062/63 B.S.
3. To analysis the profitability position of UCIL.
4. To examine the capital structure of UCIL.
5. To recommend suggestion for the improvement of its weakness.

1.5 Importance of the Study

PEs Company is the ornament of the economic development without in the absence of it development of industry cannot be thought. By knowing this fact, government invests huge money to PEs Company. PEs Company has been established by using public fund,

so the government wants, PEs Company must earn profit providing goods and services to the public.

Usually, profit does not just happen, profit are managed. The need of this study is also felt in the view of management of the firm that the firm can recognize the major problem area of financial management and that can help to well management of their finance. Again this study can also be important for government while formulating program and policies. Lastly, this study is important as management technique for decision making. This is also important for students of graduate and post graduate level of institute of management. This study also helps UCIL to take necessary correction to improve financial health by utilizing the natural resources and avoiding pollution in proper way.

1.6 Limitation of the Study

The Public enterprises company is accepted as the means of study participation to accelerate its economic growth, taking this view government has established public enterprise company in various sectors, this study covers only industrial sector especially Udayapur cement industries limited. It has the following limitation.

1. However there are 43 public enterprise company in different sector, this study has chosen from the industrial sector i.e. Udayapur Cement Industries Limited.
2. This study based mainly on the secondary data so, the result depends on reliability of secondary data.
3. This study covers a span of fifth years period from fiscal year 2058/59 to 2062/63 B.S.
4. Only quantitative methods have been used to measures.
5. Some important ratios , trend analysis , standard deviation of the ratio , coefficient of variation of the ratio, mean of the ratio, indexing of ratio, Karl person's coefficient of correlation, probable error and profitability are used to analyze the financial performance of Udayapur Cement Industries Limited.
6. Ratios are compared with the manufacturing industry of standard ratio.

1.7 Research Methodology

Research methodology is the research method or technique used through the entire study. Udayapur Cement Industry Limited is situated in Udayapur district in Gaighat. The basic objective of this study is to highlight the degree of application of financial performance in UCIL with respect to efficiency to earn profit and sales. The motive of this study is to analyze financial statement of UCIL with a board view to suggest the measure to improve the economic and financial activities from the existing condition as well as to recommend suggestions for its improvement in future because it has been suffering from continuous losses due to lack of cost and financial knowledge. So a purposeful methodology consists of nature and sources of data collection procedures, data processing procedures and use of analytical tools.

Research methodology is the way to solve about research problem systematically. Therefore research methodology is the research method or technique to use through the entire study.

In other words, the objective of research methodology is to analyze the financial strength, weakness, and cost of UCIL.

At last, research methodology is the process of arriving at the solution of the problem through planned systematic dealing with collection, analysis and interpretation of the fact and figure.

1.8 Organization of the Study

To make the study in the systematic order, the study will be divided in five chapters.

Chapter-I Introduction

The first chapters will be related to introduction. In the introduction chapter, background of the study, the focus of study, problem of the study, objectives of the study, need and importance of the study, research of the study will be organized.

Chapter-II Review of Literature

The second chapter will be related to introduction, concept of financial statement, analysis and tools of financial statement analysis.

Chapter-III Research Methodology

The third chapter will be main chapter for the study area it will be related with the research design period covered, nature and sources of data, data collection period, Procedure of data processing and tools and techniques of analysis.

Chapter-IV Presentation and Analysis

The fourth chapter consists of comparative ratio analysis, mean, and standard deviation, coefficient of variation, index, trend analysis, Karl person's coefficient of correlation, probable error and profitability analysis.

Chapter-V Summary, Conclusion, and Recommendations

The last chapter includes summary, finding and recommendations, abbreviation and terminology. Finally on extensive bibliography, vita sheet and appendices are incorporated at the end of the study.

CHAPTER –II

REVIEW OF LITERATURE

The present chapter highlights up on the relevant literature to make the base of knowledge for the study. The scholars in respect of financial performance have expressed different visions.

Review of literature comprises with previous articles concerned with this study. Review of literature comprises upon the existing literature and research related to the present study with a view to find out what had already been studied. According to Wolf & Pant "The purpose of the reviewing the literature is to develop some expertise in One's area, to see what new contribution can be made and to review some idea for Developing research design" (Pant and Wolf; 1996:31-44).

This chapter is divided in to three sections. The first section is conceptual review or theoretical review which covers the topics such as concept of financial performance, meaning, history and function of cement industries, evaluation, concept objectives and role of cement industries.

Second Section is about review of related studies. Under this section various past studies done on the related field and related publication will also be reviewed.

Third section is about the review of research tools and techniques. Here various accounting, financial and statistical tools that are used during the process of analysis will be reviewed.

2.1 Conceptual Framework

This section, conceptual framework specially the concept of financial performance, meaning of cement industries, function and role of Udayapur cement industry,

regulation relating to Udayapur cement industry in Nepal etc., which are described briefly as follows:

2.1.1 Financial Performance

Profit is essential for an enterprise for its survival and growth and to maintain capital adequacy through profit retention. Profit is one of the indicators of sound financial performance. It is usually the result of sound business management i.e. cost control, credit-risk management and general efficiency of operation. Profit is important for any business concern including cement industries but sole objective of such institution is not profit.

Financial institution (bank) must maintain adequate liquidity to meet a wide range of contingencies. If financial institution fails to maintain adequate liquidity, it faces many difficulties. On the other hand, if it maintains excess liquidity it may be retained earnings to the point where it can be built up the capital needed to hold its relative position in the banking structure. Excess liquidity is the loss of income. A bank must maintain adequate cash and bank balance to meet day-to-day operations as well as for remote contingencies. It measures the extent to which it can oblige its short-term obligations.

Investors more concerned with firm's long-term financial strength. While evaluating the financial performance, business with concerning with resource mobilization. Commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposit and the extent of loans and advances of these banks are also expanding. It seems that the bank loans are the sufficient to meet the demand of various emerging industries and banks are found to have been directed to them resources event towards not traditional sectors. Out of the eleven commercial banks currently in operation, the two indigenous commercial banks i.e. Nepal Bank Limited and Rastriya Banijya Bank are operating with nominal profit. Those banks have not been able to increase their income from commission and discount. Moreover, they are faced with the problem of overstaffing, accumulated overdue and defaulting loans. However the Joint Venture Banks are efficient enough to generate large profit and have been distributing significant amount of bonus and dividend. In case of Joint Venture, there is

effectiveness in loan recovery, overdue and defaulting loans have been minimized and high margin between interest income and interest expenses.

2.1.2 Meaning of Public Enterprises

Public enterprises (PEs) or state-owned enterprises (SOEs) are identified by threecharacteristics. First, SOEs are classified as part of the public sector. Therefore, they must be owned by the government. Second, SOEs are an enterprise and therefore must be engaged in the production of goods and services for sale. Third, sales revenues of SOEs should bear some relation to cost. Therefore, a public hospital charging a flat fee from its patients irrespective of treatment is not an SOE. SOEs are predominantly businesses, at least potentially self-sustaining, and get their revenue through the sale of goods they either purchased or produced, without much regard to the way they are legally organized (Aharoni, 1986:6). This definition of PEs or SOEs includes those SOEs that supply their services against fees paid by the users of the services, which are intended to cover costs, whether or not they are separately incorporated.

Aware of the definitional problem of PEs, in 1980 the International Centre for Public Enterprises (ICPE) attempted to reconcile and standardise the definition (Manandhar, 1993:14). After exhaustively examining the characteristics underlying the concept of PEs, ICPE proposed a statistical and a conceptual definition as follows:

Statistical Definition of Public Enterprise

"A public enterprise is a productive organizational entity which engages in activities of a business character and markets any of its output and which is publicly-owned to the extent of 50% or more" (ICPE, 1981: 26).

Conceptual Definition of Public Enterprise -

"A public enterprise is an organization which is:

a. owned by public authorities including central, state or local authorities, to the extent of 50% or more;
b. is under the top managerial control of the owning public authorities, such public control including, *inter alia*, the right to appoint top management and to formulate critical policy decisions;

c. is established for the achievement of a defined set of public purposes, which may be multidimensional in character;
d. and is consequently placed under a system of public accountability;
e. is engaged in activities of a business character;
f. involves the basic idea of investment and returns;
g. and which markets its outputs in the shape of goods and services" (Ibid:15).

Nepal is land locked and developing countries. The most PEs is major means to develop economic infrastructure. Private parties are not interested to invest on the large scale of industry. They are interested immediate return from their investment. In this case, it is compulsion for the government to take over it as a responsibility. PEs Company is the backbone of business it is the centre of business enterprises. No PEs Company can run without finance. PEs Company is the indicator to development of Nepalese economy. They provide employment as well as consume natural resources and help increase purchasing power, which develops standard of living.

Industries are the income source to relieve poverty. Industrial development is a major infrastructure of stable economic development. To some extent, this is satisfactory in the sense that each developing and under developed country has to follow industrialization for their betterment. According to Professor Harry Johnson: - "Industrialization involves the organization of product in business enterprises characterized by specialization and decision of labour both within and among themselves, this specializations is based on the application of technology and mechanical electoral power to supplement and replace human efforts and motivated by the objectives of minimizing cost per unit and maximizing the return to the enterprises."

It is not necessary far to search development of PEs Company in Nepalese Economy. Only a few industries were established on the period of Ranas. They were based on agriculture. Slowly and slowly, some other industries were established on non-agricultural field. Before the political change 2007 B.S. a few industries were established into the nation.

Because of bad management during World war period, unfavorable industrial policy and unstable government, the most of the above industries are closed except Nepal Bank Limited was able to survive on that period.

After the political change of 2007 B.S. , industrial bases are developed continuously Nepal has adopted mixed economy to attract private sector , but private parties are not interested to invest on large scale industry rather than immediate return from their investment .

It is difficult to find out causes of all enterprises therefore one public enterprise has been chosen. So, it is quite pertinent to mention here that so far no one had performed financial study in an analytical way regarding Udayapur Cement Industries Limited. To perform analysis on financial of the UCIL, financial and statistical tools have been applied.

In conclusion, based on the above definition, there are two dimensions to defining public enterprise public and enterprise. In the public dimension, there should be public purpose, public ownership, public control and management accountability. The enterprise dimension includes business character, the concept of investment and return, and marketed the output when its pricing has some relation to the cost. Hence, public enterprise is a combination of both ‘public’ and ‘enterprise’.

2.1.3 History of Public Enterprises

Public enterprises in Nepal emerged comparatively recently. Most of these enterprises came into existence during the Second, Third and Fourth plans in the 1960s and the first half of the ‘70s. With the initiation of the first five-year plan in 1956, public enterprises have been promoted in Nepal. For the first time the industrial policy of 1957 formally recognized the responsibility of the government in “promoting, assisting and regulating” industrial development in the country and the First Plan intended to establish state monopolies in the fields of transportation, telecommunication, hydro-electric power generation and irrigation, and to run some big industries, such as cement, sugar, cigarettes, textiles, iron and steel (GON, 1956:55). The emergence of public enterprises

was stimulated by the inability of the private sector to adequately fulfil national objectives.

The corporate form of public enterprise appeared only in 1952 when the government that came to power after the revolution of 1951 decided to go for the majority holding—from 40% share ownership to 51% in Nepal Bank Limited, the only commercial bank operating in the country. The objective was clearly to control the financial market. Three struggling units (jute, cement and tea) were taken over by the government and two electrical companies were nationalised. Most of the enterprises were either established by the government or established by the donor countries (Manandhar, 1993:46). Similarly, at the same time India was preparing its first five-year plan after it got independence. The plan presented to the government by the Planning Commission in December, 1952 indicated the need for "a rapid expansion of the economic and social responsibilities of the state" to satisfy the "legitimate expectations of the people". It stated, however, that this "need not involve complete nationalisation of the means of production or elimination of private agencies in agriculture or business and industry". Only a "progressive widening of the public sector and a reorientation of the private sector to the needs of planned economy" was envisaged (Narain, 2003:21). Hence, the ideology of the controlling the economy by the government was obvious at that time, not only in Nepal but also in its neighboring countries.

2.1.4 Performance of Public Enterprises

Performance can be defined as: the degree to which a development intervention or a development partner operates according to specific criteria/standards/guidelines or achieves results in accordance with stated goals or plans. (www.ifad.org/ evaluation/ guide/ annexa/ a.htm accessed on 25 Aug. 2005). Linking with the previous definition of performance, the 'performance' of a public enterprise could be defined as the attainment of goals by the enterprise. In the context of public enterprises, 'performance' refers to the extent to which a public enterprise achieves the objectives that have been set for it. More specifically, performance is interpreted in terms of success in achieving the stated objectives. Performance is thus essentially correlated with the objectives.

The performance of public enterprises in Nepal has been an area of public concern and criticism. Successive government reports, documents and research studies have unequivocally criticised their poor performance, inefficiency and wastefulness. Some have even questioned their objectives and existence (IDS: 1987 cf. Manandhar, 1993:60).

It is widely believed that in most developing countries the performance of the PE sector has been disappointing. For example, in Nepal, SOEs have become an unsustainable burden on the budget and the banking system, absorbing scarce public resources. Despite measures to improve the performance of SOEs in the 1980s, public sector financial losses remained to constitute an ongoing burden to the treasury and to the economy. In 1992, gross transfers to the SOEs were more than the combined expenditure on health and education and total losses in the public sector were equal to 1% of GDP (Sharma,1995:7).

Public enterprises in Nepal and elsewhere suffer from similar problems. They are very often over-manned, due to politicians and bureaucrats loading them with supporters, friends and often relatives. Most importantly, bureaucrats and politicians make management decisions for political reasons; profitability, customer service and efficiency should be the primary concerns, but unfortunately these only get the requisite attention when businessmen operate those same businesses (Clarke, 1999). Such allegations could be found in the Nepalese case also, as the PEs are accused of low performance, overstaffing and operating under a lack of autonomy due to political interference, and so forth (Manandhar, 1998; MoF, 1999:6; CRPS, 1995:11; Sharma, 1995:7).

Performance of public enterprises could be measured in various ways; Victor Powel (1987) has explained that there are several indicators for measuring public enterprise performance. However, the indices can be classified into the following six groups (cf. K.C.1999:144):

- General performance indices
- Management performance
- Financial performance
- Investment performance

- Costs breakdown (input co-efficient), and
- Physical performance (i.e. resource use).

All the indices could not be used in the present study; however an attempt has been made to evaluate the performance of Nepalese public enterprises largely looking at the financial performance.

Financial performance is a significant consideration in the performance evaluation of public enterprises. Financial profitability, with regard to the financial performance evaluation, shows that the PE's "ability to earn profits proves a measure of its market strength, its ability to keep down costs. Profitability also affects the amount of investment, for much industrial investment is financed out of reinvested profits, and hence the contribution of the firm to the overall growth of the economy" (Killick, 1983:183 cf. K. C, 1999:144).

The poor financial performance of public enterprises has had a direct impact on government budgets. Table 3.2.2 shows that government funds dedicated to public enterprises increased significantly (around 22.27% annually) during 1994/95–2001/02, while the flow of funds from public enterprises to the government recorded only a rise of 14.55% during the same period. This clearly shows that public enterprises are a drain of scarce resources rather than a generator of resources, even though the situation improved slightly after 2001/02 in terms of rate of return from the PEs. Similarly, since 2000/01, the government stopped providing the capital subsidy, which can be interpreted as a positive sign.

Regarding the financial performance of PEs, most of them incurred operating losses in FY 2002/03 aggregating Rs. 1.61 billion (see the table 3.2.2). During this period, the profit level of public utility enterprises has been positive, while losses of service and social sector have been transformed into profit. Operating losses of PEs belonging to industrial and trading sectors, however, have gone up. Aggregate operating profit of PEs in FY 2003/04 is totals Rs. 3.89 billion. The table painted a bleak picture of the financial

performance of public enterprises, which justified adopting an alternative policy option to minimize the types of losses incurred from this sector.

2.1.5 Evaluation and Concept of Udayapur Cement Industries

Various cement enterprises are concerned with in the manufacturing sector. Cement industry is one of the main elements of manufacturing public enterprises. Among them, Udayapur Cement Industries Limited has been chosen for the research.

Cement is a basic construction material to build road, canals, bridges, buildings and so on. Before establishment of Himalay Cement Factory, all required cement imported from the abroad and india. To reduce trade imbalance, Himalay Cement Factory had been established. Himalay Cement Factory had not been successful to fulfil the growing demand alone. So, the government had established the Udayapur Cement Industries Limited on the loan of His Majesty's Government Nepal under loan assistance from Asian Development Bank.

Udayapur cement industries limited (UCIL) is a growing cement of grater, national important in the area of industrialization. But, the study relating to UCIL and its financial performance is very scarce. Thus, the importance of this study lies mainly filling a research gap in financial performance of UCIL. Firstly establishment of Himalaya Cement Company (HCC) and Hetauda Cement Industry Limited (HCIL) are on the way to pose no threat to this organization. Thus, this kind of study may help it to run in competitive market.

2.1.6 Concept of Financial Statement Analysis

Finance is the lifeblood of business and it is backbone of business. Finance is the central them of business enterprises so the financial statements are prepared generally at the end of every financial year. Financial statement also called financial reports. Financial statement is summary of the accounts of assets, liabilities and capital of the firm or a certain date and result of operation during a certain period.

Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and study of trend of these factors as shown in a series of statement.

“Financial statement contains summarized information of the firm’s financial affairs, organization systematically”.

Thus according to S.P. Gupta, Financial statement are prepared for the purpose of presenting a periodical review or report on the progress by the management and deal with (i) the status of investments in the business, and (ii) the results achieved during the period under review.

Financial statements systematically contain summarized information of the firm’s financial affairs. Top management need to see actual financial situation of the firm to owners creditors and the general public Balance –Sheet and profit and account are the traditional basic financial statement of business. Financial statement contains summarized information firm financial affairs organized systematically. They are meant to represent the firm’s financial situation to users.

The financial statement, which represents summaries of the financial and operating data entered in the accounting records are stated in monitory units. These monitory units do not generally represent current absolute values.

Thus, it can be said that financial statements communicate information to the different parties. It is a source of information relating to a firm.

Again, it can be said that the financial statement as an accounting picture of the firms operations and financial position.

The two financial statements are described below i.e. Balance Sheet and Income Statement.

2.1.6.1 Balance Sheet

Balance sheet presents the financial position at particular moment of time. Balance sheet presents the position of company's assets, liabilities and shareholders' equity at particulars date. The liquidity and solvency of the UCIL are also measured by the balance sheet.

It represents summary of financial and operating data entered in the accounting records, which are stated in the monetary units.

A balance sheet is a statement showing the nature of and amounts of all assets liabilities at the close of a fiscal period, the nature and amounts of all debts owned and the firm amount equity of the owners or owners in the assets of the business.

"From the technical accounting point of view the balance sheet is a list of the balance of the accounts after a formal closing of the book for accounting periods".

"Balance sheet contains information about resources and obligation of a business entity and about its owner's interest in the business at a particulars point of time."

It can be said that the balance sheet is pictorial representation of the financial position of an industry or a company. It shows the assets owned by the business and source of fund used in acquiring the assets.

2.1.6.2 Income Statement

Income statement is a summary of expenses, revenue loss and net income of industry or company for a particular period of time.

In other words, it can be said that income statement is profit and loss account.
Income statement shows earning capacity potential of the firm. It measures the firm's profitability, statement of income and statement loss.

“A profit and loss statement also known as earning or a statement of operations) is a statement sharing over a specified and limited period of the life of business, the nature and amount all its income for the period and the nature and amounts of all its operating costs and expenses.”

The profit and loss account is a condensed and classified record prepared for the various subsidiary nominal accounts of the gain and losses to the business for a period of time.

This income statement is frequently titled as statement of income. Income statement is a summary of expenditure of a firm within a particular period of time.

Lastly, it can be said that income statement or profit and loss account shows the net income and net loss resulting from the operation of business during a specific period.

2.1.7 Financial Statement Analysis

Analysis and interpretation of financial statements are as attempts to decide the significance and meaning of financial data so that a forecast may be made of the prospects for future earning, ability to pay interest, debt maturities, both current as well as long term debt and probability of a second dividend policy.

The analysis and interpretation of financial statements require a comprehensive and intelligent understanding of their nature and limitations as well as the determination of the monetary valuation of the items.

“Financial Analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account.

Different types of financial statement analysis can be used on the basis of their objectives. They have been classified in the following points.

2.1.7.1 External Analysis

Those persons who are not concerned with the enterprise make external type of analysis. They do not have access to the enterprises. This type of analysis is made investor, credit agencies governmental agencies and research scholars.

2.1.7.2 Internal Analysis

This type of analysis is made by those persons who have to the books of accounts. They are member of the organization. The internal type of analysis is financial data for managerial purpose.

2.2 Review of Related Studies

2.2.1 Review of Journals/ Articles

This part is mainly focused on the review of books, articles, journals published and different thesis, which is relating to this study. Various thesis works have done in different aspect of commercial banks and financial performance of different organization is also review for the purpose of justifying the study. Different writers have some different theoretical insight into financial performance after their various research studies.

Finance is a broad field and there are various books written in this subject.

Khan, M.Y. and **Jain, P.K.** (1990) is considered to be a useful book in the financial management. The modern approach of Khan and Jain views the term financial management in broad sense and provides a conceptual and analytical framework for financial decision making. According to them, "The finance function covers both acquisitions of funds as well as their allocation; hence apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses."

The major financial decisions according to Khan and Jain are: -

- The investment decision
- The financial decision and
- The dividend policy decision.

Van Horne, J.C. (1994) *"Financial Ratio can be derived from the balance sheet and the Income Statement"*. They must be analyzed on a comparative basis. Ratio may also be judged in comparison with those of similar firms in the same line of business and when appropriate, with an industry average and we can look to future progress in this regard."

A comparative study of financial performance is a basic process, which provides information on profitability, liquidity position, earning capacity, efficiency in operation, sources and use of capital, financial achievement and status of the companies. These information will help to determine the extend of efficiency and effectiveness of the company in respect of deploying financial resources in the profitable manner.

Pandey, I.M. (1997), in his book "*Financial Management*" defines financial management as that managerial activity which is concerned with the planning and controlling of the firm's financial resources. I.M. Pandey believes that among the most crucial decision of the firm are those, which relate to finance, and an understanding of the theory of financial management provides the conceptual and analytical insights to make the decisions skill fully.

I.M. Pandey further identifies two kinds of finance functions: -
(a) Routine and (b) Managerial finance functions.

The routine finance function do not require a great managerial ability to carry them out and they are chiefly clerical in nature. Managerial finance functions on the other hand are so called because they require skill full planning Control and execution of financial activities. There are, according to I.M. Pandey four important managerial finance functions: -

- Investment or long-term assets mix decision.
- Financing or capital-mix decision.
- Dividend of profit allocation decision.
- Liquidity of short-term asset-mix decision.

Ahuja, B.N. (1998), *"Financial Performance"* analysis is a study or relationship among the various financial factor in business a disclosed by a single set of statement and a study of the trend of these fact as shown in a series of statements. By establishing a strategic relationship between the item of a balance sheet and income statements and other operative data, the financial analysis unveils the meaning and signification of such items."

2.2.2 Review of Thesis

Prior to this study, the several researchers have found various studies regarding financial performance of cement industries, commercial and joint venture banks etc.
In this study, only relevant subject maters are reviewed which are as follows: -

Ban, Hom Bahadur (2002), had submitted the thesis on the topic, "*A study of the financial performance of Udayapur Cement Industries Limited*". The primary objective of this study is to evaluate of financial performance of UCIL.

The specific objectives are:

1. To examine the liquidity position of UCIL.
2. To perform trend analysis of financial items of UCIL from 2050/51 B.S. to 2055/56 B.S.
3. To analysis the profitability position of UCIL.
4. To examine the capital structure of UCIL.
5. To recommend suggestion for the improvement of its weakness

Findings:-

1. The average ratio shows below the normal standard which shows the decreasing trend of current ratio which means that the industry's obligation to pay its short term liability has deteriorate in these years.
2. The inventory occupies major share in current assets. It has shown fluctuating trend. Debtors, advance expenses & receivable maintain second position in ranking. It has been in increasing trend in the time of the study. Cash & bank balance

maintain last in 3rd rank in average. It has also sometimes increased and sometimes decreased.

3. The trends of current liabilities of Udaypur Cement Industries Limited have some increasing consistency. Networking capital has occupied major portion in working capital. The liquidity position of the Industry during the study period seems very poor.
4. Standard of quick ratio is 1:1. Quick ratio of UCIL of each study period is below the standard which shows that the liquidity position of the Udaypur Cement Industries Limited seems not satisfactory.
5. The long –term debt to net worth ratio of UCIL shows a large share of financing by creditors relatively to the owners, therefore there is larger claim of the shareholders against the assets of the firm. Normally, low ratios are favourable for the firm.
6. The high C.V. shows highly fluctuation on those ratios in the research period. The low C.V. shows slowly fluctuation on that ratio in research period. The interest coverage ratio is highly unsatisfactory it means that there is no capacity to pay interest earning profit.
7. The fixed assets turnover ratio seems to unfavourable due to investing huge amount of fixed assets and fewer amounts of sales as compared to fixed assets. The trend of those ratios seems to be unfavourable, since in cement industry a large amount of sum should be invested, so there is low turnover.
8. Capital employed ratio is not satisfactory.
9. Total assets turnover ratio of UCIL is highly below. It means UCIL's ratios are highly unsatisfactory. The total assets creates nominal of sales per rupees. Since, it seems to be highly unsatisfactory because it is due to the high investment in total assets. The company could earn profit if it fully utilized its available resources. It also represents the inefficiency of management.
10. The company has invested an excess amount on inventory. The average inventory turnover ratio of Udaypur Cement Industries Limited looks very poor. It shows that the inventory management of the industry seems very poor. The company is not able to maintain proper balance between inventory and sales.
11. The nature of current assets and current liabilities are not standard form. It is slightly below standard i.e. 2:1 and improving.

12. Net sales, costs of goods sold and gross profit have not taken positive trend.
13. There is substantial gap between sales and production target and achievement it means that management of UCIL has not been successful to operate smoothly its capacity.
14. Lime-stone, coal, iron –ore, gypsums, power are the major components of the industry.
15. UCIL has been suffering from great loss since 2058/59 because its taking long time to established as compared to the estimated time.
16. When the company will operate at full capacity, there will be positive impact on profitability.

Recommendations:-

1. The Udaypur Cement Industries Limited should pay proper attention on the investment in current assets. This avoids risk in financial performance of UCIL. Many financial tools and techniques (i.e. ratio analysis, statistical tools analysis, and correlation coefficient test) help the Udaypur Cement Industries Limited to identify the deviation.
2. The liquidity position has not been very poor and should improved adopting an appropriate strategy of maintaining an adequate liquidity position either by more current assets or by reducing the level of current liabilities organizing both in the variables.
3. The Udaypur Cement Industries Limited has invested huge amount of capital in current assets like inventory. The amount of over investment in inventory should be reduced & the surplus from this should be invested in capital expenditure in order to expand the production capacity & increase the sales volume to earn more profit.
4. The activity ratio shows the inefficiency of management due to lower amount of production as compared to its capacity. The production level should be increased fully utilizing its present fixed assets, adopting short range and long range production plan. Unnecessary fixed assets should be sold off. The plant layout should be managed in order to help in production process if it is necessary.
5. The management of Udaypur Cement Industries Limited should give due attention for minimizing the administrative and operating cost of the industry. The unskilled

man Power, over staffing, non systematic purchasing of raw materials, unnecessary expenses and misuse of facilities are the major causes for higher operating cost. Systematic purchasing system, appropriate number of staff and reduction in other overhead are main elements to overcome this problem.

6. The Udaypur Cement Industries Limited should develop positive managerial attitude towards productive investment. The manager & directors have to bear huge responsibility and to keep interest to exercise the knowledge in investment decision.

Dahal, Mohan Kumar (2002), had submitted the thesis on the topic, "*A study of the financial performance of joint venture banks in Nepal (A comparative study of Himalayan bank limited and Bangladesh bank limited)*." The primary objectives of this study is to make comparative analysis of the financial performance of two joint venture banks viz HBL and NBBL and to recommend suggestion for the improvement of state of affairs.

Specially following are the specific objectives of the study.

1. To make comparative analysis of liquidity position.
2. To compare in terms of percentage of deposit utilization. That is proportion of
3. Deposit, which is not held as liquid cash.
4. Make a comparison as regards various activities, such as
   a. Composition of fund.
   b. Deposit structure.
5. To compare the investment structure of both banks.
6. To make comparative analysis of profitability with reference to Net worth,
7. Total assets, Total deposit, Capital employed and other relevant variables.
8. To make comparative analysis of interest differential i.e. between interest
9. Received and interest paid.
10. To make comparative analysis of other indicators with reference to Earning
11. Per share, Dividend per share Dividend pay out ratio.
12. To evaluate the income and expenses pattern.

Findings:

1. In HBL and NBBL, HBL has maintained cash and bank balance as required by NBR except in F/Y 2055/56 and 2056/57 where as NBBL has maintained sufficient cash and bank balance as required by NRB.
2. Percentage of deposit utilized is computed. Amount beyond the cash balance is assumed to be utilized for income generating purpose.
3. There is positive and perfect correlation between total deposit and total investment of both banks.
4. The trend of total deposit in case of HBL and NBBL is increasing trend through the study period. The total deposit in F/Y 2056/57 of HBL has increased to 311% and of NBBL to 701%.
5. Fixed deposit trend of HBL is fluctuating where as fixed deposit trend of NBBL is increasing continuously.
6. The saving deposit trend of HBL and NBBL is in increasing trend.
7. Total investment trend of HBL and NBBL is in increasing trend.

Recommendation

1. Since NBBL has maintaining excess cash and bank balance which is the symbol of idle cash. So NBBL is suggested to decrease its cash and bank balance by increasing its investment on profitable sectors.
2. HBL has low percentage of liquidity and it has failed to maintaining the liquidity position as required by NRB.HBL is advised to increase its liquidity to unanticipated call of deposit.
3. In order to minimize the risk, NBBL should change its investment patterns by following the principle "Do not put all the eggs in the same basket", So NBBL is suggested to scatter its investment on different sectors after the feasible study.
4. HBL has low proportion of fixed deposit on its total deposit. Such deposit can be used for long and more profitable sector. So HBL is advised to increase its fixed deposit to build up its capacity on long-term investment.
5. NBBL has maintaining higher cash and bank balance. So this bank is suggested that excess fund should not be maintained and NBBL should increase its deposit

utilization specially on Government securities, Money at call and short notice because such investment are more liquid and it can be rediscounted.

6. Income and Expenses trend of HBL show that there is higher rate of growth in expenses than in income. Excess growth trend of expenses than income couldn't be healthier to any firm or banks. So HBL should decrease its expenses trend with regard to its income.

Shrestha, Birendra (2003), conducted a study on, "*A Comparative Analysis of Financial Performance of the Selected Joint Venture Banks*" has set the following objectives: -

1. To examine the comparative financial strengths and weakness of the selected JVBs.
2. To highlight various aspects relating to financial performance of the JVBs. For last
3. five years.

The major findings of the study were as follows: -

1. Analysis of liquidity ratio indicates better quality position of the NB bank. Although liquidity position of NBL and NABIL are lower, they are still able to meet their current obligation.
2. Analysis of leverage or capital structure ratio indicates that long-term debt to net worth ratio of NB bank is the highest and NABIL is the lowest. JVB‟s ae extremely leveraged.
3. Return on investment, interest earned to total assets ratio and commission and discount
4. earned to personnel expenses ratio of NB bank is higher than NABIL and HBL, while
5. return on shareholder‟s equity is higher in HBL and interest income to interest expense ratio is high in NABIL bank.
4. The valuation ratios used for analysis showed the following results. The PE ratio and DPR of NABIL bank is the highest and HBL is the second highest, while the MVPS to BVPS ratio of HBL is the highest and NB is the lowest.

Shrestha, Kamal Deep (2009), had submitted a thesis on the topic, "*A comparative study on financial performance of Everest Bank Limited and Himalayan Bank Limited."* The following are the specific objectives of his study:

1. To analyze and compare the financial strengths and weakness of the sample financial institution.
2. To determine the financial performance through the use of appropriate financial and statistical tools.
3. To evaluate its financial position.
4. To suggest the financial performance and to provide the recommendation on HBL and EBL.

Findings

1) Liquidity Position

In term of Current Ratio:

Both banks are below than the normal standard but EBL is slightly better than HBL.

In term of fixed deposit to Total Deposit Ratio:-

The average ratio of HBL is lower than EBL. It shows that EBL's Liquidity position is better than HBL. The higher proportion of fixed deposits indicates the stronger liquidity position.

2) Activity Turnover Ratio

Over fluctuation ratio of all fiscal year saving deposit is not efficiently utilized to invest in loan and advances due to the over function. The C.V. of EBL is higher than that of HBL which is 4.51% > 2.27%. It shows that the ratios are fluctuating more in EBL than HBL. There is higher variability in ratios of EBL than HBL. The investment by total deposit ratio measures the capacity utilization. It shows that greater fluctuation in ratios of HBL than EBL.

3) Leverage Ratio or Capital Structure Ratio

The total debt to shareholder's equity ratio describes the lender contribution for each rupee of the owner's contribution. On the basis of C.V, HBL is lower than EBL. The

variability of HBL is lower than EBL. This explains that HBL's ratio is less fluctuating over the study period, than EBL. With comparing between EBL and HBL, HBL has higher average ratio than EBL. High total debt to shareholders equity ratio refers that the use of debts by the banks helps to enhance the rate of return of shareholders fund.

4) Profitability Ratio

Profitability ratio is measurement of efficiency and the search for it provides the degree of success in achieving desired profit. Profitability in term of Net Profit to total assets ratio of EBL is found higher than that of HBL.

5) Other Ratios

The ROI of EBL and HBL are in fluctuating trend.

Recommendations

1. The overall liquidity position of HBL is in normal standard. The researcher should suggest the bank to keep the reasonable amount of liquidity.
2. The turnover of the commercial banks is the main factor of income generating activity. From the analysis of turnover of these two banks, EBL has better turnover than HBL in terms of loan and advances to fixed deposit ratio and investment by total deposit ratio. So, HBL should invest its deposit in profit generating sector.
3. EBL and HBL should maintain a proper balance of total debt to shareholder's fund.
4. Both banks should utilize the resources more efficiently for profit generating sector.
5. EBL should invest in loan and advances.

Shahi, Suruchi (2009), had conducted a research entitled "*Working capital of cement industries in Nepal"(with special reference to Udayapur Cement Industry Ltd.).* She had conducted the research to acquire the following objectives.

1. To analyze the situation of the working capital management of Udaypur Cement Industry Limited with respect to cash credits & inventory management.
2. To examine the effect of working capital on profitability.
3. To analyze and find out whether the available funds are properly utilized or not.
4. To measure the liquidity position of the factor
5. To recommend measures for improvement.

She used primary and secondary sources of data collected and five years data from FY 2057/58 to FY 2061/62 for analysis. Her research major findings are as follows:

1. The current assets of UCIL has sometimes increased and sometimes decreased.
2. The trends of current liabilities of Udaypur Cement Industries Limited have no consistency. It adopts sometime increasing and sometimes decreasing trend.
3. Networking capital has occupied major portion in working capital.
4. The liquidity position of the Industry during the study period seems very poor.
5. Decreasing trend of net working capital is not good sign for the company.
6. Increased net working capital signifies that the management has sufficient funds available to manage day to day affairs of the company.
7. The company has invested an excess amount on inventory.
8. Inventory management of the industry seems very poor. The company is not able to maintain proper balance between inventory and sales.
9. The receivables are generally affected by credit sales.
10. The investment made by the company in receivable reveals liberal credit policy. Liberal credit policy follows loose credit policy and as a result it can incur higher bad debt losses & face the problems of liquidity. Thus the management of Udaypur Cement Industries Limited should take care to achieve optimum balance that maximizes the overall return of the firm.

Recommendations

1. Many financial tools and techniques (i.e. ratio analysis, funds flow analysis, and hypothesis test) help the Udaypur Cement Industries Limited to identify the deviation.
2. The Udaypur Cement Industries Limited should have proper cash planning to estimate the cash receipts & payment. This will help to minimize the problems if it has excess or deficit cash balance. As a result there will neither be excess nor the shortage of cash balance in the industry and the liquidity & profitability position of the industries can also be improved.
3. Udaypur Cement Industries Limited should be reduced in order to maintain proper balance in sales and production.

4. The problem of over and under stocking have also been faced by the industry. To avoid this situation, Udaypur Cement Industries Limited should apply stable inventory policy.
5. The Udaypur Cement Industries Limited has invested huge amount of capital in current assets like inventory.
6. The amount of over investment in inventory should be reduced & the surplus from this should be invested in capital expenditure in order to expand the production capacity & increase the sales volume to earn more profit.
7. To maintain good inventory position statistical tools and mathematical tools like ratio and technique of ABC inventory control must be introduced in determining the stock position.
8. Receivables with reference to sales, Udaypur Cement Industries Limited have fluctuating trend, which implies there is loose credit policy i.e. liberal credit policy.
9. To avoid the problems of higher level of investment in receivables the industry should have maximum cash sales for this the customers should be provided discounts facilities on cash purchases.
10. It should avoid policy of credit sales.
11. The customers should be acquainted with the period of credit.
12. The sales of Udaypur Cement Industries Limited during the study period have not maintained according to the size of current assets. To maintain optimum size of sales as per the size of current assets the company should invest on advertisement as well as other promotional aspects.

2.3 Research Gap

Review of literature is an essential part of all studies. It is a way to discover what other research in the end of our problem has uncovered. A critical review of literature helps the research through understanding and insights into previous research works that relates the present study. It also avoids investigating problem that has already been definitely answered. Therefore researcher seems to identify these new contributions and add them to the body of knowledge before researcher conducts own investigation. The purpose of literature review is this to find out what research have been conducted in ones chosen field of the study and what remains to be done. All the above studies are conducted with

the research title “Financial Performance.” Some researchers have selected various manufacturing companies for the research and some have concentrated in only one or two companies. As to research gap is concerned, there are many changes taken place in the d production process and financial performance of any industries as compared to the last few years. Fresh study related to this topic has been done in this research. The most of the studies has been considered many more objectives which made their study more complicated but in this research report only five objectives are taken into study. Some researcher uses both primary and secondary data but only secondary data are considered in this research. Both financial as well as statistical tools like ratio analysis, turnover, cash conversion cycle, mean, standard deviation, coefficient of correlation and probable error are used in this research. Almost all the ratios have been applied to cover the analytical part and fulfill the objective of this study.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

A systematic methodology is considered as inevitable for achieving true, better and superior consequences. Every research develops the theory. Theory is the relationship between two facts. Research is connected with investigation, inquiry and development of theory. The objective of this study is to highlight the degree of application of financial performance in UCIL with respect to efficiency to earn profit and sales. Thus, research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object in view.

Research methodology basically consists of the methods, processes, tools & techniques used in the analysis of data, arriving at generalization and preparation of the report. The purpose of this chapter is to high light the different methods & conditions that are applied during the present research. It describes research design, nature & sources of data, data collection procedure, processing procedure and use of analytical tools.

3.2 Research Design

Research design is a systematic planning, structure & strategy for conduction a particular research work. “A research is the arrangement of the conditions for collection and analysis of data in a manner that aims to combine the relevance to the research purpose with economy in procedure."

Research design is a plan, structure and strategy of investigation conceived so as to obtain answer to research Question & to control variance. A man is the overall scheme or program of research. The structure of the research is more specific. The present study consists of research design, which will be analytical and exploratory. For the study, data from passed five year’s (i.e. 2058/059 to 2062/63) were collected. The analytical research design is used to access the financial position or condition (performance) of UCIL. The

exploratory design has been used to explore and find out necessary suggestion for strengthening the financial condition or position.

3.3 Nature & Sources of Data

Generally, we can classify the data into primary & secondary. The data which are taken from the interview of the concerned person from the incidental place can be term as primary data. These data are very essential for the research. But the company during the fiscal year 2058/059 to 2062/063 primarily bases this study upon secondary data, which are publishing. Main source of data is factory office of the Udaypur Cement Industry Limited as well as other relevant books, magazines, articles, news paper, seminar report, economic surveys, Sarkari Sansthan Sambandi Karya Pragati Tatha Laxya Bibaran etc. Unpublished thesis and studies have also been taken as sources of data. The data, which are connected from the fiscal year 2058/59 to 2062/063, are gathered from the account department of the company in printed form.

3.4 Data Collection Procedure

The main sources of data are secondary data, which has been collected from the central office of UCIL located at Gaighat in Udayapur. Other necessary data are picked up from various books such as journals, magazines, published and unpublished dissertations, reports, economic surveys, memorandum of articles etc. which is available at library of various sartorial offices. And also for the study purpose, 5 years audited balance sheets, profit & loss accounts & other related document, which secondary in nature are collected from the company. Other necessary information & document related to this study has also been collected for the help of friends & phone from the company.

3.5 Data Processing Procedure

The main source of data is the factory building of Udaypur Cement Industry Limited. The required 5-year's financial statements are collected directly from the factory & some other relevant information is collected from the office of the management. First of all collected data are compiled, organized, tabulated and processed according to the need and objective of the study. Data for five years from fiscal year 2058/059 to 2062/063 are presented on table according to time series.

3.6 Tools of Financial Analysis

Analysis of financial performance is the process of determining financial strength and weakness of the company by establishing strategic relationship between the items of balance sheet and income statement. This analysis is useful to various interested groups i.e. management, owners creditors, employee etc. It provides clear understanding about the financial condition of the form, various analytical tools are available but among them, the important tools will used in this study.

3.6.1 Ratio Analysis

Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements.

"A ratio is a statistical yard stick that provides a measure of the relationship between two variables of figures. This relationship can be expressed as percent (cost of goods sold as percentage of sales) or as a quotient (current assets as a certain number of times the current liabilities)".

Ratio analysis is widely used and important tools of financial analysis. Interest result about company's financial performance can be found out by using ratio analysis. Thus, various interest group i.e. owners, creditors, investors and outside analysis use ratios to gain knowledge about the financial position (performance) of the company. It also helps to make qualitative judgment about the firm's financial condition.

A single ratio is itself has no meaning because it does not indicate favorable or unfavorable condition. It should be compared with some standard to analyze financial performance.

3.6.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its maturing obligation. It established the relationship between current assets to current liabilities. The proper relationships between them ensure good liquidity position in the company and it increases the operational efficiency. If the company unable to maintain proper liquidity position,

the company fall's to meet its current obligation timely and will result in bad credit rating, loss of creditors confidence etc. On the other hand, very high degree liquidity is also not desirable, idle assets earn nothing. The company's funds will be unnecessary tied up in current assets. Therefore, there should be neither excessive liquidity nor in adequate liquidity.

While considering current assets, it includes cash and those assets, which can be converted into cash within a year such as sundry debtors, short-term investment. Bank deposits stock, advance and accused income (interest) etc. On the other hand, current liabilities are those obligations, which are mature within a year i.e. creditor's, bills payable, employee welfare fund and gratitude payable, income tax payable etc. The relationship between current assets and liabilities is proper or not can be measured with the help of current ration and quick ratio.

A. Current Ratio

This is the most used ratio. It is a ratio of current asset to current liabilities. It is expressed as follows.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio of a firm measures its short-terms solvency through establishing the relationship between total current assets and total current liabilities. It shows the rupees of current available for each rupee of current obligation. This ratio helps the company to determine the desirable liquidity position to meet its maturing obligation so that the company may not suffer from lack of liquidity and too much highly liquidity. It also acts as index of the working capital available to the company.

B. Quick ratio or Acid Text Ratio

This is the ratio of quick asset to current liabilities. It is expressed as follows.

$$\text{Liquid Ratio/ Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

It shows the better picture of the company's ability to meet its short term liabilities out of short-term assets. In other words, current ratio measures the ability of the company to convert its current assets into cash in order to meet its current obligations. Quick assets include all current assets expect stock's and prepaid expenses. Inventories (stocks) are excluded because it takes time for realizing into cash. Prepaid expenses should also be excluded because they cannot be connected into cash.

3.6.1.2 Activity/Turnover Ratio

Turnover ratio is highly used to analyze the financial performance of each and every type of enterprises. This ratio measures the effectiveness of the employment of resources in a company through establishing the relationship between sales and various assets. It indicates the speed with which assets are being turned into sales. Generally, the high turnover shows assets are managed well and the company has satisfactory financial position. On the other hand, low turnover indicates unnecessary blocking of capital and it has adverse affects on overall efficiency of the enterprise. The turnover is determined by inventory turnover ratio, debtor turnover, current assets, fixed assets and total assets turnover.

A. Inventory Turnover Ratio

This ratio also known as stock turnover ratio, establishing relationship between cost of goods sold during a given period and average amount of inventory held during that period. It is computed by dividing the cost of goods sold by the average inventory. Thus,

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

Inventory turnover is a measure of the company's operational efficiency because huge amount is invested in them. The inventory turnover shows how rapidly the inventory is turning into receivable through sales. Generally, huge inventory turnover is indicates a good inventory management and a lower inventory turnover suggests an inefficient inventory management.

B. Debtor Turnover Ratio

This ratio measures the accounts receivables (trade debtor and bills receivables) in terms of number of day of credit sales during a particular period. This ratio calculated as follows:-

$$\text{Debtor Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Average Debtors}}$$

A high turnover is in dedicative of shorter time lag between credit sales and cash collection i.e. efficient debtors management. On the other hand low turnover shows that debts are not being collected rapidly i.e. inefficient management of debtors in the company.

C. Fixed Assets Turnover Ratio

This ratio express as the number of times fixed assets are being turned over in started period. It is calculated as under:-

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

A high fixed assets turnover shows that the company utilizes and manages its investment on fixed assets efficiently. On the contrary, low turnover indicates company's inability and inefficiency in its capacity utilization.

D. Capital Employed Turnover Ratio

Capital employed may be defined as non-current liabilities plus owner's equity. Therefore, we can say that capital employed means permanent capital or long-term funds. Capital employed turnover ratio equals sales divided by capital employed. That is:

$$\text{Capital Employed Turnover Ratio} = \frac{\text{Sales}}{\text{Capital Employed}}$$

This ratio indicates the ability of generating Sales per rupee of long term investment. High ratio shows efficiency in utilization of owners and long-term creditors fund and vice-versa.

E. Total Assets Turnover Ratio

Total assets turnover ratio reflects how well the company assets are being used to generate its sales. There must be a proper balance between total assets and sales. Total assets turnover ratio equals sales divided by total tangible assets. In this study, intangible assets are excluded because they are not productive assets.

The formula is:-

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets (Total Tangible Assets)}}$$

The firm's ability to generate amount of sales in comparison to Per Rupee investment in total assets promote the firms overall performance. Thus, the high value of total assets turnover shows the proper utilization of all the financial resources committed to the firm and vice versa.

3.6.1.3 Leverage/Capital Structure Ratio

Capital structure ratio judges the long –term financial position of the firm. M.Y. Khan and P.K. Jain defined , "Capital structure ratio as financial ratio which throw light on the long term solvency of a firm as reflected in its ability to assure the long-term creditors with regard to (i) periodic payment of interest during the period of the loan (ii) repayment of principle on maturing or in predetermined installments at due dates."

Capital structure ratio measures the contribution of financing by owners compared with financing provided by creditors. It indicates the firm debt and fixed charge paying ability also.

A. Total Debts to Total Assets Ratio

Firm's assets are financed either by debt or shareholders capital. Total debt to total assets ratio establishes the relationship between debt and total assets and it explains what

percentage of the value of assets of the company have been financed by its creditors. There should be desirable proportion of debt and equity capital on company's financing. Simply, a low total to total assets ratio indicates lower risk to creditors as well as leveraged and vice-versa. It is calculated as follows.

$$\text{Total Debts to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

B. Debt to Share Holders' Equity Ratio

This ratio is calculated to measure the relative proportions of outsiders fund and shareholders fund invested in the company. This ratio is also known as external, internal equity ratio and is calculated as follows.

$$\text{Debt / Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders Equity}} \times 100$$

Generally, a high ratio shows that the claims of creditors are greater in comparison to owners and during the time of low profit level, company may suffer from the problem of paying fixed charges to creditors and vice versa.

Thus, this ratio indicates the relative proportionalities of debt and equity in financing the assets of the firm.

C. Debt to Capital Ratio

The relationship between creditor's fund and owner's capital can be expressed in terms of debt to total capital ratio. It can be calculated in different approaches, on approach is to relate the long –term debt with permanent capital of the firm. The permanent capital comprises shareholders' equity as well as long–term debt. Another approach to calculate the debt to capital ratio to capital ratio is to relate the total debt with total asset of the firm. The total debt of the firm comprises both long-term debt plus current debt. The total assets consist of permanent capital plus current liabilities. The ratio is calculated in this way.

$$\text{Debt to Total Capital Ratio} = \frac{\text{LongTerm Debt}}{\text{Total Debt}} \text{ or } \frac{\text{Permanent Capital}}{\text{Total Assets}}$$

This ratio shows the relationship between creditor's fund and owner's fund. High ratio represents a greater risk to the creditors and vice-versa.

D. Total Debt to Net Worth Ratio

Total debt to net worth ratio is calculated by dividing total debt by net worth. It measures the percentage of total funds provided by creditors, Creditors prefer moderate debt ratio. Lower the ratio, the grater the cost on against the creditors' losses in the event of liquidation. In contrast, the owners may seek high ratio to magnify earnings because raising new equity means giving up some degree of control and earnings as well. If debt ratio is too high, there is danger-tempting irresponsibility in the part of the owners. This ratio is calculated by using following formula.

$$\text{Total Debt of Net Worth Ratio} = \frac{\text{Total Debt}}{\text{Net Worth}}$$

E. Interest Coverage Ratio

Interest coverage ratio is useful for the firm's debt servicing. Sometime, it is also called "time interest earned" ratio. This ratio is calculated by dividing the operating profile by the interest. The formula of this ratio is:

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expense}_s}$$

Time interest earned reflects the firm's ability to pay interest.

3.6.1.4 Profitability Ratio

"The test of effectiveness of any business undertakings it's profitability. Profit is outcome of successful operation and efficient management of enterprise. Sufficient profit is not only necessary to cover the risks but also exist in society over long period of time through expansion, growth and diversification of its business."

Thus earnings are essential to maintain financial health continuously.

Profitability ratio measures the worth of the selected investment in various categories of asset depending largely on sales performance and operative efficiency. Generally, higher value of profitability ratio, more it shows better financial performance of the company and vice-versa. Gross profit margin, net profit margin, operating ratio return on shareholder's equity and return on total assets etc measure profitability position.

A. Gross Profit Margin

Gross profit margin establishes the relationship between gross profits with sales to measure the relative operating efficiency of the company. This ratio indicates the average spread between the cost of goods sold and revenue. This ratio is calculated by using the following formula.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

Generally, a high gross profit margin, reflect a lower cost of goods sold, is a good sign of good management and vice-versa.

B. Net Profit Margin

Net profit margin establishes the relationship between net profit and sales of a firm and measure the firm ability to turn each Rupee of sales into net profit. This ratio provides considerable insight into the overall efficiency of the business. A higher net profit margin indicates management efficiency in manufacturing, administering and selling the products. It is calculated as follows.

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Sales}} \times 100$$

C. Operating Ratio

This ratio is calculated to ascertain the relationship that exists between operating expenses and volume of sales. This ratio is given below:-

Operating Expenses Ratio = $\frac{\text{Expenses(Administrative+Selling)}}{\text{Net Sales}} \times 100$

The lower the ratio, the better it is. The higher ratio the less favorable it is because it shows operating expenses has been incurred.

D. Return on Shareholders' Equity

Return on shareholder's equity is an indicator of firm ability of mobilizing resources of the owners. This ratio helps us to judge whether the firm has earned a satisfactory return to its equity holders or not. Generally, high ratio shows the efficient utilization of owner's funds. It is calculated as follows.

Return on Shareholders' Equity = $\frac{\text{Net Profit After Tax}}{\text{Shareholders Equity}} \times 100$

The shareholders equity includes share capital and retained earnings (reserve and surplus) of the company.

E. Return on Total Assets

Return on total assets measure the profitability of the total funds invested in the firm's assets. In other words, it evaluates the efficiency of the company in utilization and mobilization of its assets. The return on total assets is net profit divided by total assets.

Return on Total Assets = $\frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100$

F. Return on Capital Employed

"This ratio is an indicator of the earning capacity of the capital employed in the business. Profit is related to the total capital employed. The term capital employed refers to long-term fund supplied by the creditors and owners of the firms." This ratio is considered to be the most important ratio because it reflects the overall efficiency with which capital is used. It is helpful to show how well the management has used the funds supplied by the creditors and owners of the firm. This ratio is calculated by using formula:-

Return on Capital Employed= $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$

This ratio is helpful tools for making capital budgeting decision; a project yielding higher return is favored.

3.6.2 Trend Analysis

Different type of tools can be used to know the actual position of business concern, out of which trend analysis is one, which shows percentage changes in several successive years instead of between two years.

A series of financial statement may be analyzed determining and studying the trends of data shown in the statements. This method involves that calculation of percentage relationship that each statement item bears to the same item in the 'base bear'. Trend percentage discloses changes in the financial and operating data between the specific periods and makes possible for the analyst to form an opinion as to decide whether it creates favorable or unfavorable situations according the results, which is reflected by the data. It is also an important tool for analyzing financial performance. Trend analysis is used to know actual position of business. It plays an important role in the interpretation of financial statements. Trend is a general tendency. Taking the figure for a number of years and a tabulating them in an intelligent manner or presenting them on graph or charts can analyzed the trend of the significant aspects of the business activities. At a present, it has been the growing practice of business houses to show the trend of sales, profit, cost and wages, over a number of years by presenting charts, tables and graphs etc.

3.6.3 Statistical Analysis

The following simple statistical tools selected for the financial study of Udaypur cement industries limited is as follows:-

A. Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general $x_1, x_2, \text{----------} x_n$ are the given observation. Their arithmetic mean usually denoted by x given by

$$\bar{X} = \frac{x1, x2 - - - - - - - xn}{N}$$

B. The Coefficient of Variation (C.V.)

The coefficient of variation is the relative measure of dispersion comparative across distribution, which is defined as the ratio of the standard deviation to mean expressed in percent.

$$C.V. = \frac{S.D}{\bar{x}} \times 100$$

C. Standard Deviation

Standard deviation, usually denoted by the letter ‘’ (small sigma) of the Greek letter. It is defined as the positive square root of the arithmetic mean of the square of the deviations of the given observation from their arithmetic mean.

$$S.D. = \sqrt{\frac{\sum x^2}{n}}$$

D. Karl Person’s Coefficient of Correlation (r)

Karl person’s coefficient of correlation is most widely used in practice. The Karl person’s coefficient of correlation is denoted by the symbol (r). It measures the relationship between two variables. In the present context, the coefficient of correlation is calculated in order to examine the relationship between two variables of UCIL. The formula for computing (r) is:

$$r = \frac{\sum xy}{\sqrt{\sum x^2 . \sum y^2}}$$

Interpretation of Correlation Coefficient

The coefficient of correlation as obtained by the above formula shall always lie between +-1

When r is +1 there is perfect positive correlation between the variables.

When r is -1 there is perfect negative correlation between the variables.

When r is between0.7 to 0.999, there is high degree of correlation between the variables.

When r is between 0.5to 0.699, there is moderate degree of correlation between the variables.

When r is less than 0.5 there is low degree correlation between the variables.

When r is zero, there is no correlation between the variables.

E. Probable Error (P. Er)

After computing the value of the correlation the next step is to find the extent to which it is dependable error of correlation coefficient usually denoted by P.E.(r) is an old measure of testing the liability of an observed value of correlation coefficient .

Probable error = $0.6745 \times \frac{1-r^2}{\sqrt{n}}$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

The basic objective of analyzing the financial performance and interpretation is to highlight the strength and weakness of the business. Therefore, in this chapter, we find out the financial performance of Udayapur Cement Industry Limited in terms of liquidity, profitability and efficiency through financial statistical tools i.e. Ratio analysis and mean, s.d. and c.v.

This chapter is devoted to analyze the financial performance of UCIL here; the data collected are shown in tabular form for simplicity and analyzed with the help of ratio analysis and trend analysis.

4.1 Financial Ratio Analysis

Various ratios are computed from the balance sheet and profit and loss account. The important tools of the ratio analysis are as below: -

4.1.1 Liquidity Ratio

The liquidity ratio is applied to measure the ability of the industry to meet the short-term obligation. A high liquidity ratio shows the financial strengthens of the firms. A standard liquidity ratio must be 2:1. The ratio analyzed under liquidity ratio is as follows: -

4.1.1.1 Current Ratio

In this study, current assets includes the cash and bank balance, money at call, bills purchased and discounted, loans , advances and overdraft and investment in Government of Nepal securities and other assets. A current liability includes the short-term borrowings (loan), customer deposit of excluding fixed deposits, bills payable and other liabilities.

The standard current ratio is 2:1. If the ratio is less than 2:1 the solvency position of the industry is not good. If the ratio is more than 2:1, the industry may have an excessive investment in current assets. So, each industry must maintain an adequate amount of current assets to meet the current obligation.

Calculation of current ratios is as follows: -

Table 4.1

Current Ratio

(Rs. in millions)

FY	Current Assets	Current Liabilities	Ratio(times)	Index (%)
2058/59	2790.23	2790.23/5	1.31	100.00
2059/60	2790.23	2790.23/5	1.16	88.55
2060/61	2790.23	2790.23/5	1.08	82.44
2061/62	2790.23	2790.23/5	1.11	84.73
2062/63	2790.23	2790.23/5	1.08	82.55
Mean($\bar{X}$)			1.15	
Standard Deviation (σ)			0.25	
Coefficient of Variation (C.V)			21.74%	

Source: Annual Reports of UCIL

It is already mentioned that the standard current ratio is 2:1. The above table shows that UCIL recorded a highest ratio of 1.31 times in the fiscal year 2058/59 and that of lowest 1.08 times in the fiscal year 2060/61 and 2062/63. The mean value is 1.15 times and the highest index is 100% in the fiscal year 2058/59 and the lowest index is 82.44% in the fiscal year 2060/61. The table shows S.D. and C.V. 0.2 and21.74% respectively.

The above table shows that the average ratio of last 5 years of UCIL. The average ratio shows below the normal standard which shows the decreasing trend of current ratio which means that the industry‘s obligation to pay its short term liability has deteriorate in these years.

4.1.1.2 Quick Ratio/Liquid Ratio

Quick ratio measures the firm’s ability how quickly it can convert assets into cash in order to meet its current liabilities. Since, current ratio includes inventories, which might

not be susceptible to early realization; quick ratio comes to be used. Liquid liabilities are those liabilities requiring immediate payment. It is calculated by dividing the quick assets by total current liabilities. Quick assets are that assets which can be easily converted into cash. The quick ratios of UCIL for the fiscal year 2058/59to 2062/63 are given in the table No. 4.2.

Table 4.2

Quick Ratio

(Rs. in millions)

FY	Quick Assets	Current Liabilities	Ratio(times)	Index (%)
2058/59	178.90	438.10	0.41	100.00
2059/60	196.09	481.92	0.41	100.00
2060/61	239.55	590.27	0.41	100.00
2061/62	242.94	633.91	0.38	92.68
2062/63	291.33	724.90	0.41	100.00
Mean (X)			0.11	
Standard Deviation (σ)			0.33	
Coefficient of Variation (C.V)			300	

Source: Annual Reports of UCIL

It is observed from the above table that quick/liquid ratio of UCIL shows similar trend. UCIL has recorded a highest ratio of 0.41 times in all the year except a in the fiscal year 2061/62 and the lowest ratio is 0.38 in the fiscal year 2061/62.The average value is 0.11 times. The highest index is 100% in all the year except a in the fiscal year 2061/62 and the lowest index is 92.68% in the fiscal year 2061/62. The table also shows standard deviation and coefficient of variation 0.33 and 300% respectively. Generally 1:1 is considered satisfactory as compared to the manufacturing industry. The above table shows that UCIL has an unsound liquidity position in the research period. But, there is higher fluctuation in this ratio.

4.1.2 Leverage / Capital Structure Ratios

To judge the long –term financial position of the firm leverage or capital structure ratios are computed. The leverage of UCIL has been analyzed with the help of long-term debt to net worth, total debt to total assets, total debt to net worth and interest coverage ratios.

4.1.2.1 Long –Term Debt to Net Worth Ratio

These ratios are in between borrowed funds and owner's capital. It measures the long – term financial solvency of a firm. This ratio reflects the relative claims of creditors and shareholders against the assets of the firm. This ratio is calculated by dividing long-term debt by net worth. The long-term debt consists of only long term loan and net worth including share capital and capital reserve but we deduct accumulated loss and differed revenue expenditure. The comparative picture has been shown below in the table 4.3.

Table 4.3

Long-Term Debt to Net Worth Ratio

(Rs. in millions)

FY	Long-Term Debt	Net Worth	Ratio(times)	Index (%)
2058/59	1966.18	4480.20	0.44	100
2059/60	1910.00	4244.40	0.45	102.27
2060/61	1880.00	3980.91	0.47	106.82
2061/62	1855.00	3817.80	0.49	111.36
2062/63	1840.00	3484.86	0.53	120.45
Mean			0.476	
Standard Deviation (σ)			0.09	
Coefficient of Variation (C.V)			18.91%	

Source: Annual Reports of UCIL

From the above table first of all Net worth is calculated.

Net worth = Total Assets – Total Current Liabilities

= 4918.30 – 438.10

= 4480.20

Similarly, all net worth is calculated.

The above table shows that UCIL has recorded the highest long –term debt to net worth ratio of 0.53 times that means 120.45 percent in the fiscal 2062/63 and the lowest ratio 0.44 times that means 100 percent in the fiscal year 2058/59. It is observed that the average ratio is 0.476 times which means 47.60 percent. The highest index is 120.45% in

the fiscal year 2062/63. The table also shows standard deviation and coefficient of variation 0.09 and 18.91% respectively.

The ratio of UCIL shows a large share of financing by creditors relatively to the owners, therefore there is larger claim of the shareholders against the assets of the firm. Normally, low ratios are favorable for the firm.

4.1.2.2 Debt to Capital Employed Ratio

The ratio is calculated to know the portion of long-term debt to total capital. The ratio can be calculated by dividing long-term debt by capital employed. Capital employed equals to long –term debt plus net worth. The comparative picture has been shown in the table No. 4.4.

Table 4.4

Debt to Capital Employed Ratio

(Rs. in millions)

FY	Long-term debt	Capital Employed	Ratio(times)	Index (%)
2058/59	1966.18	6446.38	0.31	100.00
2059/60	1910.00	6154.40	0.31	100.00
2060/61	1880.00	5860.91	0.32	103.23
2061/62	1855.00	5672.80	0.33	106.45
2062/63	1840.00	5324.86	0.35	112.90
Mean			0.324	
Standard Deviation (σ)			0.0173	
Coefficient of Variation (C.V)			5.34%	

Source: Annual Reports of UCIL

From the above table first of all Capital Employed is calculated.

Capital Employed = Long- term debt + Net worth

= 1966.18 + 4480.20

= 6446.38

Similarly, all capital employed is calculated.

The above table shows that UCIL has the highest debt to capital employed ratio of 0.35 times in the fiscal year 2062/63 and the lowest ratio is 0.31 times in the fiscal year 2058/59 and 2059/60. Mean value is 0.324 times and S.D and C.V. are 0.0173 and 5.34%

respectively. The highest index is 112.90 percent in the fiscal year 2062/63 and lowest index is 100 percent in the fiscal year 2058/59 and 2059/60.

Normally, high ratio is not favorable to the firm because this shows the grater claim of debt holders than that of shareholders. Low result means lower the claim of debt holders and higher claim of the share of shareholders. In the case of debt to capital employed ratio, ratios are in increasing order. Ratios are found to be little bit lower. So the debt to shareholder shows favorable.

4.1.2.3 Total Debt to Net Worth Ratio

This ratio measures the long – term financial liquidity or solvency position of the firm, which is desirable to know its ability to meet its long – term obligation. This ratio can be computed by dividing total debts by net worth. The total consists long – term loan and current liabilities in the context of UCIL. This ratio reflects the relative claims of creditors against owners and vice versa. Therefore, there must be a proper balance between the total debt and equity. The comparative picture of UCIL is shown in the table 4.5.

Table 4.5

Total Debt to Net Worth Ratio

(Rs. in millions)

FY	Total Debt	Net Worth	Ratio(times)	Index (%)
2058/59	2404.28	4480.20	0.54	100.00
2059/60	2391.92	4244.40	0.56	103.70
2060/61	2470.27	3980.91	0.62	114.81
2061/62	2488.91	3817.80	0.65	120.37
2062/63	2564.90	3484.86	0.74	137.04
Mean			0.622	
Standard Deviation (σ)			0.0794	
Coefficient of Variation (C.V)			12.77%	

Source: Annual Reports of UCIL

From the above table first of all Total Debt is calculated.

Total Debt = Long- term debt + Current Liabilities

= 1966.18 + 438.10

= 2404.28

Similarly, all Total Debt is calculated. Net worth is already calculated from the table 4.3. The above table shows that the UCIL has the highest total debt to net worth ratio of 074 times in the fiscal year 2062/63 and the lowest ratio is 0.54 times in the fiscal year 2058/59. Mean value is 0.622 times which reflects that the UCIL has lower portion of debt capital against equity, which is favorable for the company's point of view. S.D and C.V. are 0.0794 and 12.77% respectively. The highest index is 137.04 percent in the fiscal year 2062/63 and lowest index is 100 percent in the fiscal year 2058/59.

4.1.2.4 Interest Coverage Ratio

The ratio is also called interest earned ratio. Interest coverage ratio is calculated by dividing EBIT by interest. The ratio shows how many times the interest charge is covered by funds that are ordinarily available to pay the interest. Generally high rate is favourable but too high ratio indicates that the business concern has very strict policy in using debt. A lower ratio indicates excessive use of debt. The comparative picture of UCIL has been shown in the table 4.6.

Table 4.6

Interest Coverage Ratio

(Rs. in millions)

FY	EBIT	Interest	Ratio(times)	Index (%)
2058/59	73.25	101.03	0.73	100
2059/60	(38.70)	97.10	(0.40)	(54.80)
2060/61	(30.40)	94.68	(0.32)	(43.84)
2061/62	0.12	93.81	0.0013	0.18
2062/63	40.01	92.53	0.4	54.80
Mean			0.0823	
Standard Deviation (σ)			0.48	
Coefficient of Variation (C.V)			583.23%	

Source: Annual Reports of UCIL

From the above table, first of all Earning Before Interest and Tax (EBIT) is calculated.

EBIT = Earning Before Tax + Interest

= (27.78) + 101.03

= 73.25

Similarly, all EBIT is calculated.

The above table shows that the UCIL has recorded the highest interest coverage of 0.73 times in the fiscal year 2058/59 and the lowest ratio is (0.40) times in the fiscal year 2059/60. Mean value is 0.0823 times. S.D and C.V. are 0.48 and 583.23% respectively. The highest index is 100 percent in the fiscal year 2058/59 and lowest index is (54.84) percent in the fiscal year 2059/60. The high C.V. shows highly fluctuation on those ratios in the research period. The low C.V. shows slowly fluctuation on that ratio in research period.

The interest coverage ratio is highly unsatisfactory it means that there is no capacity to pay interest earning profit.

4.1.3 Activity/ Turnover Ratio

This ratio represents intensity with which the firm uses its assets in generation sales. By this ratio, efficiency of the different assets has been known. This activity ratio of UCIL has been analyzed with the help of inventory turnover ratio, debentures turnover ratio, total assets turnover ratio, capital employed turnover ratio and fixed assets turnover ratio.

4.1.3.1 Fixed Assets Turnover Ratio

Fixed assets turnover ratio indicates the adequacy of sales in relation to investment in fixed assets. It also measures the efficiency of the firm and thus, tries to seek answer how well the firm has utilized its investment in the fixed assets. This ratio can be calculated by dividing net sales by Net fixed assets. A high fixed assets turnover ratio indicates efficient utilization of fixed assets in generating sales vice- versa. The fixed assets turnover ratio of UCIL has been shown in the table 4.7.

Table 4.7

Fixed Assets Turnover Ratio

(Rs. in millions)

FY	Net Sales	Net Fixed Assets	Ratio(times)	Index (%)
2058/59	719.30	1505.24	0.48	100
2059/60	515.31	1399.17	0.37	77.08
2060/61	473.39	1314.07	0.36	75
2061/62	546.46	1228.23	0.44	91.67
2062/63	532.83	3795.53	0.14	29.17
Mean			0.358	
Standard Deviation (σ)			0.1315	
Coefficient of Variation (C.V)			36.73%	

Source: Annual Reports of UCIL

It is observed from the above table that the UCIL has recorded the highest ratio of 0.48 times in the fiscal year 2058/59 and the lowest ratio is 0.14 times in the fiscal year 2062/63. Mean value is 0.358 times and S.D and C.V. are 0.1315 and 36.73% respectively. The highest index is 100 percent in the fiscal year 2058/59 and lowest index is 29.17 percent in the fiscal year 2062/63.

The fixed assets turnover ratio seems to unfavorable due to investing huge amount of fixed assets and fewer amounts of sales as compared to fixed assets. The trend of those ratios seems to be unfavorable, since in cement industry a large amount of sum should be invested, so there is low turnover.

.4.1.3.2 Capital Employed Turnover Ratio

Capital employed turnover ratio measure the effectiveness of the utilization of capital employed. It shows the firm's ability generating the sales per rupee form the long-term investment. Sales to capital employed ratio in capital employed turnover ratio. Higher ratio is favourable and vice – versa. The capital turnover ratios of UCIL for the period 2058/59 to 2062/63 are given in the table 4.8.

Table 4.8

Capital Employed Turnover Ratio

(Rs. in millions)

FY	Net Sales	Capital Employed	Ratio(times)	Index (%)
2058/59	719.30	6446.38	0.11	100
2059/60	515.31	6154.40	0.08	72.73
2060/61	473.39	5860.91	0.08	72.73
2061/62	546.46	5672.80	0.10	90.91
2062/63	532.83	5324.86	0.10	90.91
Mean			0.094	
Standard Deviation (σ)			0.0141	
Coefficient of Variation (C.V)			15%	

Source: Annual Reports of UCIL

From the above table first of all Capital Employed is calculated.

Capital Employed = Long- term debt + Net worth

= 1966.18 + 4480.20

= 6446.38

Similarly, all capital employed is calculated.

The above table shows that UCIL has the highest capital employed turnover ratio of UCIL 0.11 times in the fiscal year 2058/59 and the lowest ratio is 0.08 times in the fiscal year 2059/60 and 2060/61. Mean value is 0.094 times and S.D and C.V. are 0.0141 and 15% respectively. The highest index is 100 percent in the fiscal year 2058/59 and lowest index is 72.73 percent in the fiscal year 2059/60 and 2060/61.

Higher the capital employed turnover ratio shows the maximum utilization of capital employed and lower the capital employed turnover ratio shows the inefficient utilization of capital employed for making sales activity. Capital employed turnover ratio is not satisfactory.

4.1.3.3 Total Assets Turnover Ratio

The assets turnover ratio indicates the sales generated per rupee of investment in total assets. It shows the firm's ability in generating the sales from the total financial resources committed in total assets. The ratio is calculated by comparing the net sales to total assets. Higher ratio is favorable and vice –versa. The total assets turnover ratios of UCIL for the fiscal year 2058/59 to 2062/63 are given in the table 4.9.

Table 4.9

Total Assets Turnover Ratio

(Rs. in millions)

FY	Net Sales	Total Assets	Ratio(times)	Index (%)
2058/59	719.30	4918.30	0.15	100.00
2059/60	515.31	4726.32	0.11	73.33
2060/61	473.39	4571.18	0.10	66.67
2061/62	546.46	4451.70	0.12	80.00
2062/63	532.83	4209.76	0.13	86.67
Mean($\bar{X}$)			0.122	
Standard Deviation (σ)			0.02	
Coefficient of Variation (C.V)			16.39%	

Source: Annual Reports of UCIL

It is observed from the above table that the maximum total assets turnover ratio is 0.15 times in the fiscal year 2058/59 and the minimum ratio is 0.10 times in the fiscal year 2060/61. It means, per rupee assets has been successful to make a sales, costing 15 paisa in the fiscal year 2058/59 and 10 paisa in the fiscal year 2060/61. The table shows the mean value and S.D. and C.V. of UCIL fro the study periods are 0.122, 0.02, and 16.39% respectively. The highest index is 100% in the fiscal year 2058/59 and the lowest index is 66.67% in the fiscal year 2060/61.

As compared to the above ratio, total assets turnover ratio of UCIL is highly below. It means UCIL's ratios are highly unsatisfactory. The total assets creates nominal of sales per rupees. Since, it seems to be highly unsatisfactory because it is due to the high investment in total assets. The company could earn profit if it fully utilized its available resources. It also represents the inefficiency of management.

4.1.3.4 Inventory Turnover Ratio

Inventory turnover ratio is also called stock turnover ratio. Inventory turnover ratio is used to measure the efficiency of sales of the firm. It also shows how rapidly the inventory is turning into sales and receivables. A high inventory turnover ratio is indicator of good inventory management and vice–versa. In other words, increase in the ratio shows the efficiency with which investment is utilized.

It is calculated in two ways. One method is that cost of goods sold is dividing by average inventory and another method is that sales are divided by closing inventory. The comparative picture of UCIL has been shown in the table no.10.

Table 4.10

Inventory Turnover Ratio

(Rs. in millions)

FY	Cost of goods sold	Average Inventory	Ratio(times)	Index (%)
2058/59	473.08	381.45	1.24	100
2059/60	386.17	379.10	1.02	82.26
2060/61	356.56	379.18	0.94	75.81
2061/62	395.77	429.08	0.92	74.19
2062/63	425.48	461.89	0.92	74.19
Mean($\bar{X}$)			1.008	
Standard Deviation (σ)			0.1360	
Coefficient of Variation (C.V)			13.49%	

Source: Annual Reports of UCIL

Average Inventory is calculated from the appendix no. A.

It is observed from the above table that the maximum inventory turnover ratio is 1.24 times in the fiscal year 2058/59 and the minimum ratio is 0.92 times in the fiscal year 2061/62 and 2062/62. The table shows the mean value and S.D. and C.V. of UCIL of the study periods are 1.008, 0.1360 and 13.49% respectively. The highest index is 100% in the fiscal year 2058/59 and the lowest index is 74.19% in the fiscal year 2061/62 and 2062/63.

The inventory turnover of UCIL showed unsatisfactory position in comparison to manufacturing industry standard (4 times). Inventory turnover ratio shows how rapidly the inventory is turned into receivables through sales. The higher inventory turnover ratio may invite stock out problem however; this problem is not observed over the study period. There is no stock out problem.

4.1.4 Profitability Ratio

Each and every firm has been established to earn profit fulfilling human needs. Profit is a kind of fuel for business enterprises or firms without profit no firm can survive. Therefore profit is essential for a firm's survival and future growth. Hence management of the firm is interested in the operating efficiency of the firm profitability ratio being one of the important indicators of operating efficiency. One of the focus of industries are to be enough profitable so as to meet a variety of objectives like achieving a desirable liquidity position, meet fixed interest obligation, overcome the future contingencies, explicit hidden investment opportunities, encourage branch expansion etc. profitability ratio are as matter of fact, best indicators of overall efficiency of the industry because they compare return of value over a bounds above values put into business with the help as assets employed.

Profitability ratios measure the profit of an enterprise. Amount of profit shows the overall performance of any business or firm. Efficient operation of firm and its ability to pay an adequate return to different parties depends upon firm’s profit. Profitability ratio shows an interesting picture of how the individual firm is operated. It can be computed either from sales or from investment. The profitability ratios of UCIL has been analyzed with the help of gross profit margin, net profit margin, operating profit ratio, return on assets, return on capital employed, return on shareholder’s equity operating ratio and return on total assets.

4.1.4.1. Net Profit/ Margin Ratio

Net profit margin ratio is the relationship between net profit and sales. It is calculated as the net profit(loss) divided by net sales. It shows the overall effect of the firm. It indicates management efficiency in controlling the manufacturing and administrative cost of the

product. The net profit margin reflects how much amount of net profit has been earned in the sales of rupee one. A high result is favorable and vice–versa. The net profit margin ratio of Udaypur Cement Industries Limited during the study period is given in table 4.11.

Table 4.11

Net Profit/Margin Ratio

(Rs. in millions)

FY	Net Profit(Loss)	Net Sales	Ratio (%)	Index (%)
2058/59	(27.78)	719.30	(4)	(100.00)
2059/60	(135.80)	515.31	(26)	(650.00)
2060/61	(125.08)	473.39	(26)	(650.00)
2061/62	(94.37)	546.46	(26)	(425.00)
2062/63	(52.52)	532.83	(10)	(250.00)
Mean($\bar{X}$)			(16.60)	
Standard Deviation (σ)			0.097	
Coefficient of Variation (C.V)			58.43%	

Source: Annual Reports of UCIL

It is observed from the above table that the maximum net profit /margin ratio (0.10) times in the fiscal year 2062/63 and the minimum ratio 0.04 times in the fiscal year 2058/59. The table shows the mean value and S.D. and C.V. of UCIL of the study periods are (0.166), 0.097and 58.43% respectively. The highest index is 100% in the fiscal year 2058/59 and the lowest index is (650) % in the fiscal year 2059/60 and 2060/61.

Net profit margin indicates inefficiency of management to earn profit. It can see from the table, the net profit margin ratio of the study period is highly unsatisfactory or it can say that ratios are extremely lowered than that of required.

4.1.4.2 Return on Total Assets Ratio

Assets management is very important because of the return on assets will rise if fewer assets are employed and all the measures of the effective management of working capital. Return on total assets evaluates how far the management is effective in using the total resources invested in assets whatever the sources of financing may be. It measures the profitability of all financial resources invested in the firm's assets. The

firm is said to misuse its assets if it is not able to earn a reasonable return on its assets. High ratio is favorable and vice–versa. Minimizing taxes within the legal options available will also improve the return. Return on total assets ratio is examined to measure the profitability of all financial investment in the industry's assets return on total assets is vital ratio for the measuring financial performance. This ratio is calculated by using the following formula.

Return on Total Assets Ratio = $\frac{\text{Total NPAT}}{\text{Total Assets}}$

Net profit refers profit after interest and tax. Total assets comprise those assets, which appear on the assets side of the balance sheet.

The return on total assets ratio of UCIL has been tabulated below:

Table 4.12

Return on Total Assets Ratio

(Rs. in millions)

FY	Net Profit	Total Assets	Ratio	Index (%)
2058/59	(27.78)	4918.30	(0.0056)	(100.00)
2059/60	(135.80)	4726.32	(0.0287)	(512.50)
2060/61	(125.08)	4571.18	(0.0274)	(489.29)
2061/62	(94.37)	4451.70	(0.0212)	(378.57)
2062/63	(52.52)	4209.76	(0.0125)	(223.21)
Mean($\bar{X}$)			(0.0191)	
Standard Deviation (σ)			0.0071	
Coefficient of Variation (C.V)			(37.17)%	

Source: Annual Reports of UCIL

It is observed from the above table that the return on total assets ratio is very low in all fiscal year and index is also very much low. The mean value and S.D. and C.V. of UCIL of the study periods are (0.0191), 0.0071 and (37.17) % respectively.

The return on total assets ratios of UCIL is not satisfactory to look the above table. The table indicates that the management failed to use its assets in its full capacity.

4.1.4.3 Return on Capital Employed Ratio

Profit depends up on the total capital employed in the business. Return on capital employed ratio basically assesses the profit related to the long term sources of funds. Supplied by creditors and owners of the firm, that is paid up capital reserve and surplus and long term debts. It provides sufficient insight in to how creditors are being used. Return on capital employed ratio can be calculated by using the following formula.

$$\text{Return on Capital Employed} = \frac{\text{Total NPAT}}{\text{Total Capital Employed}}$$

This ratio has been tabulated as below.

Table 4.13

Return on Capital Employed Ratio

(Rs. in millions)

FY	Net Profit	Capital Employed	Ratio	Index (%)
2058/59	(27.78)	6446.38	(0.0043)	(100)
2059/60	(135.80)	6154.40	(0.0221)	(501.61)
2060/61	(125.08)	5860.91	(0.0213)	(445.16)
2061/62	(94.37)	5672.80	(0.0166)	(325.81)
2062/63	(52.52)	5324.86	(0.0099)	(267.74)
Mean($\bar{X}$)			(0.0148)	
Standard Deviation (σ)			0.0077	
Coefficient of Variation (C.V)			(52.02)%	

Source: Annual Reports of UCIL

It is observed from the above table that the return on capital employed ratio is very low in all fiscal year and index is also very much low. The mean value and S.D. and C.V of the study periods are (0.0148), 0.0077 and (52.02) % respectively.

The return on capital employed ratios of UCIL is not satisfactory looking the above table. The table indicates that the management failed to use its assets in its full capacity. That means UCIL has not been successful to utilize its funds efficiently.

4.1.4.4 Return on Shareholders' Equity Ratio

Return on equity ratio measures the overall profitability of the owner's investment. It indicates how well the firm, has used the resources of owners. A high return on equity ratio represents the sound profitability position of a firm and vice-versa. This ratio is calculated by dividing net profit after taxes and interest by shareholder's equity. The comparative picture of UCIL for the fiscal year 2058/59 to 2062/63 has been shown in the table 4.14.

Table 4.14

Return on Shareholders' Equity Ratio

(Rs. in millions)

FY	Net Profit	Shareholders' Equity	Ratio	Index (%)
2058/59	(27.78)	4498.03	(0.0062)	
2059/60	(135.80)	4368.07	(0.0311)	
2060/61	(125.08)	4530.44	(0.0276)	
2061/62	(935.69)	4662.17	(0.0202)	
2062/63	(52.52)	4926.34	(0.0166)	
Mean($\bar{X}$)			(0.0203)	
Standard Deviation (σ)			0.0085	
Coefficient of Variation (C.V)			(41.87)%	

Source: Annual Reports of UCIL

It is observed from the above table that the return on shareholder's equity ratio is very low in all fiscal year and index is also very much low. The mean value and S.D. and C.V of the study periods are (0.0203), 0.0085 and (41.87) % respectively.

The return shareholder's equity ratios of UCIL are not satisfactory looking the above table. The table indicates that the management has not used the owner's capital soundly.

4.1.4.5 Operating Cost Ratio

The operating ratio establishes the relationship between operating expenses and sales volume. It is an important ratio that explains the changes in the net profit margin ratio. It

also measures the efficiency of the company as a regard to minimizing costs. Operating ratio is an indicator of operational efficiency. This ratio is calculated by dividing operations cost by sales. Operating cost include cost of goods sold, office & administrative overhead and selling & distribution expense. Lower ratio is better. Higher proportion shows limited availability of income. Hence, this ratio can be assumed as yard stick for measuring the operating efficiency. The operating ratio of Udaypur Cement Industries Limited for 5 fiscal years from 2058/59 to 2062/63 is presented below.

Table 4.15

Operating Cost Ratio

(Rs. in millions)

FY	Operating Expenses	Net Sales	Ratio	Index (%)
2058/59	33.40	719.30	0.0464	100.00
2059/60	31.05	515.31	0.0603	129.96
2060/61	32.87	473.39	0.0694	149.57
2061/62	36.36	546.46	0.0665	143.32
2062/63	40.52	532.83	0.0760	163.79
Mean($\bar{X}$)			0.0637	
Standard Deviation (σ)			0.0173	
Coefficient of Variation (C.V)			27.16%	

Source: Annual Reports of UCIL

The table shows that the operating ratio of Udaypur Cement Industries Limited is in fluctuating trend. Highest operating ratio has in 2058/059 i.e.0.046. Average operating cost ratio of study period is 0.0637. The decreasing percentage of operating cost to sales is the indication of operating efficiency.

In order to test the relationship between operating cost & sales of Udaypur Cement Industries Limited, during the study period. Karl Pearson's coefficient of correlation 'r' is calculated in appendix no. B & the results are as under:

Coefficient of correlation 'r' = 0.32

Probable error (P.E.) = 0.271

The Karl person's coefficient of correlation between operating expenses and net sales of UCIL has registered a positive correlation 'r' of 0.32 that signify that relationship between two variables is significant.

4.1.4.5 Gross Profit/ Margin Ratio

The gross profit is obtained by deducting cost of goods sold from net sales. The ratio is the relationship between gross and & net sales. This ratio measures the efficiency of the company & soundness of the management. Higher percentage indicates the better efficiency. The gross profit margin ratio of Udaypur Cement Industries Limited for 5 fiscal years from 2058/059 to 2062/063 is presented below:

Table 4.16

Gross Profit/Margin Ratio

(Rs. in millions)

FY	Gross Profit	Net Sales	Ratio (%)	Index (%)
2058/59	246.21	719.30	34	100
2059/60	129.14	515.31	26	76.47
2060/61	116.83	473.39	25	73.53
2061/62	150.70	546.46	28	82.35
2062/63	107.35	532.83	21	61.76
Mean($\bar{X}$)			26.8	
Standard Deviation (σ)			0.048	
Coefficient of Variation (C.V)			17.91%	

Source: Annual Reports of UCIL

The above table shows the gross profit margin ratio of Udaypur Cement Industries Limited for 5 fiscal from 2058/59 to 2062/63. Profit margin ratio is in fluctuating trend. Gross profit margin ratio is highest in the fiscal year 2058/59 that is 34% and the ratio is lowest in the fiscal year 2062/63 that is 21% and the average gross profit margin in 5 years study period is 26.28%. The C.V. and the S.D. is 0.048 and 17.91% respectively.

In order to test the relationship between gross profit and sales of Udaypur Cement Industries Limited during the study period Karl Pearson's coefficient of correlation 'r' is calculated in appendix A and the results are as follows:

Coefficient of correlation (r) = -0.96

Probable error (P.E.) = 0.0236

The Karl person's coefficient of correlation between gross profit and net sales of UCIL has a negative correlation 'r' of -0.96.

4.1.4.7 Operating Profit Ratio

This ratio is calculated by dividing operating profit before interest, differed revenue expenditure and taxes by net sales. The ratio is primary indicator to know the efficiency of product. High result denotes efficiency of production and vice – versa. The operating ratios of UCIL for the fiscal year 2058/59 to 2062/63 are given in the table 4.17.

Table 4.17

Operating Profit Ratio

(Rs. in millions)

FY	Operating Profit	Net Sales	Ratio	Index (%)
2058/59	212.81	719.30	30	100
2059/60	98.08	515.31	20	66.67
2060/61	83.96	473.39	18	60
2061/62	114.34	546.46	21	70
2062/63	66.82	532.83	13	43.37
Mean($\bar{X}$)			20.40	
Standard Deviation (σ)			0.0616	
Coefficient of Variation (C.V)			30.20%	

Source: Annual Reports of UCIL

It is observed from the above table that the maximum operating profit ratio is 30% in the fiscal year 2058/59 and the minimum ratio is 13% in the fiscal year 2062/62. The table shows the mean value and S.D. and C.V. of UCIL of the study periods are 20.40, 0.0616 and 30.20% respectively. The highest index is 100% in the fiscal year 2058/59 and the lowest index is 43.37% in the fiscal year 2062/63.

4.1.4.8 Cost of Goods Sold Ratio

The cost of goods sold ratio reflects how much amount of sales has been covered by cost of goods sold. By this ratio the efficiency of management has been measured. A low ratio is favorable and vice – versa. This ratio is calculated by dividing cost of goods sold by net sales. The comparative picture of the good sold ratio has been expressed in table 4.18.

Table 4.18

Cost of Goods Sold Ratio

(Rs. in millions)

FY	Cost of Goods Sold	Net Sales	Ratio	Index (%)
2058/59	473.08	719.30	66	100
2059/60	386.17	515.31	75	113.64
2060/61	356.56	473.39	75	113.64
2061/62	395.77	546.46	72	109.10
2062/63	425.48	532.83	80	121.21
Mean($\bar{X}$)			73.60	
Standard Deviation (σ)			0.052	
Coefficient of Variation (C.V)			7.07%	

Source: Annual Reports of UCIL

From the above table, we obtain the highest ratio 80% in the fiscal year 2062/63 and the lowest ratio 72% in the fiscal year 2061/62. The average value of those ratios is 73.60% and S.D and C.V. are 0.052 and 7.07% respectively. The highest index is 121.21 in the fiscal year 2062/63 and the lowest index is 100% in the fiscal year 2058/59.

The above table shows that the cost of goods sold ratio is not satisfactory over the study period. Therefore, the company must try to reduce cost of goods sold for generating profit.

4.2 Trend Analysis

The financial analysis the direction of changes over a period of years is of crucial importance. The trend analysis indicated the direction of changes and helps to predict for future decision. Time series analysis or tread analysis is drawn when a financial analyst measures a firm's performance over a time. Comparison of current to past performance utilizing ratio analysis allows the firm to determine whether it is progressing as planned. Using multi year comparison, we can see developing trends. Knowledge of these treads should assist the firm in planning future operations. The theory behind trend analysis is

that the firm must evaluate in relation to past performance and appropriate action must be taken to direct the firm towards immediately and long term goals.

During the process of analysis, different kinds of tools can be used to know the actual position of a business concern out of, which trend analysis is one, which shows the percentage change in several successive years. Trend analysis indicates the direction of change. In financial analysis, the direction of change over a period of year is of crucial importance.

In the section we are going to analysis some of the significant items contained in the financial statement by means of trend. In order to know the direction of change as regards major activities of the organization, following trends are calculated. It is also presented in diagrammatic form.

a. Trend of Current Assets and Current Liabilities
b. Trend of Total Debt and Net worth.
c. Trend of Net Sales and Average inventory.
d. Trend of Net Sales, Cost of goods sold and operating expenses.
e. Trend of Net Sales, Cost of goods sold and Gross Profit.

Trend analysis examines whether the financial position of a firm is improving or deteriorating over the years with the help of trend analysis direction of movement can be known it shows whether the trend is favorable or not in order to the trend value first year of is taken as here year so the value of first year regarded as too values of subsequent year are expressed as percentage of base year quantity.

4.2.1 Trend of Current Assets and Current Liabilities

The trend of current assets and current liabilities has been shown in the graph no. 19. The graphs shows that the relation between current assets and current liabilities. The graph of current assets has increasing trend in all year except in the fiscal year 2060/61. The trend of current liabilities is increasing trend in all the fiscal year. The increasing trend of current liabilities is greater than trend of current assets. The trend has been presented in the graph.

Table 4.19

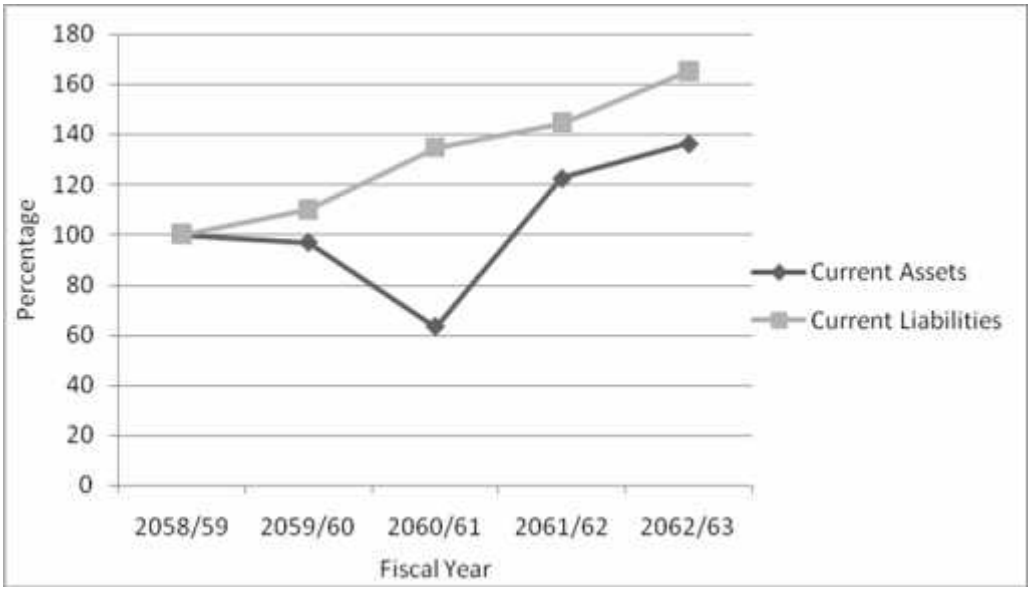
Current Assets and Current Liabilities

F.Y.	Current Assets	Index (%)	Current Liabilities	Index (%)
2058/59	2790.23/5	100	438.10	100
2059/60	2790.23/5	96.96	481.92	110
2060/61	2790.23/5	63.12	590.27	134.73
2061/62	2790.23/5	122.49	633.91	144.70
2062/63	2790.23/5	136.40	724.90	165.46

Source: Annual Reports of UCIL

Figure 4.1

Current Assets and Current Liabilities



4.2.2 Trend of Total Debt and Net Worth

The trend of total debt and net worth shows the nature of total debt and net worth from the fiscal year2058/59 to 2062/63. The trend of total debt is increasing in all fiscal years. The rate of increasing trend of total debt is low. The trend of net worth is decreasing in all the fiscal year. The trend of total debt is higher than the trend of net worth. This trend has been presented in the graph no. 2

Table 4.20

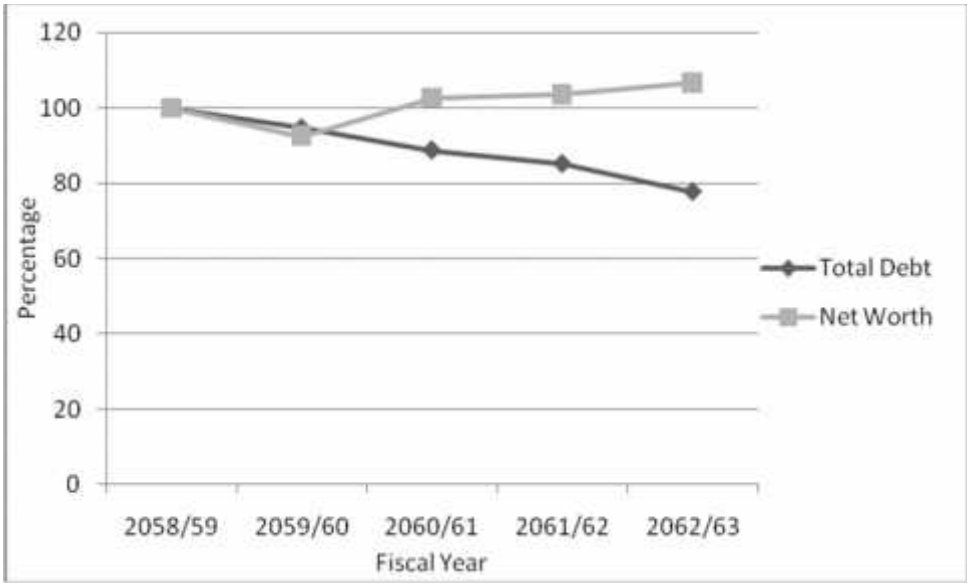
Total Debt and Net Worth

F.Y.	Total Debt	Index (%)	Net worth	Index (%)
2058/59	2404.28	100	4480.20	100
2059/60	2399.92	92.49	4244.40	94.74
2060/61	2470.27	102.74	3980.91	88.86
2061/62	2488.91	103.52	3817.80	85.21
2062/63	2564.90	106.68	3484.86	77.78

Source: Annual Reports of UCIL

Figure 4.2

Total Debt and Net Worth



4.2.3 Trend of Net Sales and Average Inventory

The trend of net sales and average inventory shows the relationship between net sales and average inventory. Net sales show the decreasing trend in fiscal year 2059/60 and 2060/61. Again in the fiscal year 2061/62 the trend is slightly increased than in the fiscal year 2062/63 the trend slightly decreased. Similarly, trend of the average inventory increased in all the fiscal year. This situation has been observed from the graph.

Table 4.21

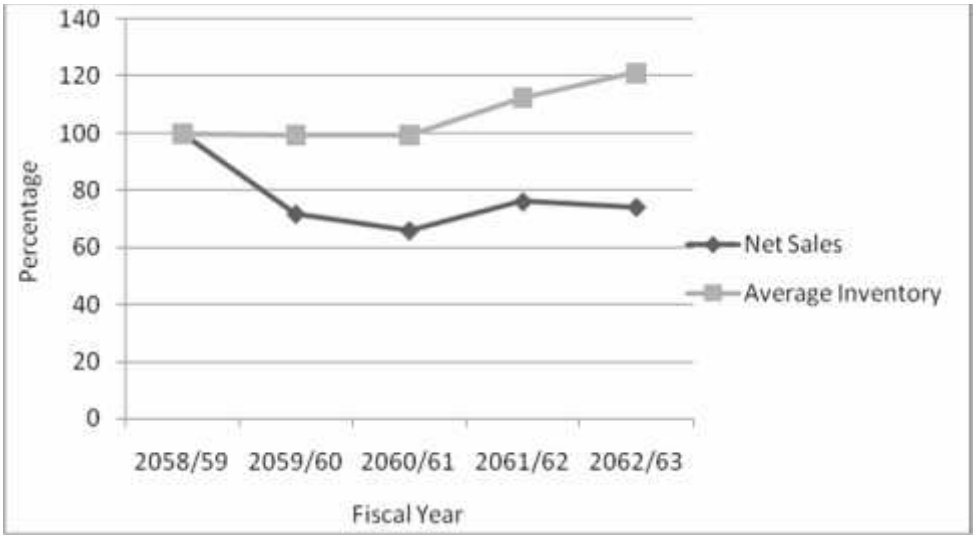
Net Sales and Average Inventory

F.Y.	Net Sales	Index (%)	Average Inventory	Index (%)
2058/59	719.30	100	381.45	100
2059/60	515.31	71.64	379.10	99.38
2060/61	473.39	65.81	379.18	99.40
2061/62	546.46	75.97	429.08	112.49
2062/63	532.83	74.08	461.89	121.20

Source: Annual Reports of UCIL

Figure 4.3

Net Sales and Average Inventory



4.2.4 Trend of Net Sales, Cost of Goods Sold and Operating Expenses

The trend of net sales and average inventory shows the relationship between net sales and average inventory. Net sales show the decreasing trend in fiscal year 2059/60 and 2060/61. Again in the fiscal year 2061/62 the trend is slightly increased than in the fiscal year 2062/63 the trend slightly decreased. The trend of cost of goods sold is decreasing slightly in the fiscal year 2058/59, 2059/60, 2060/61 and then slightly is increasing in the fiscal year 2061/62 and 2062/63. Again, the trend of operating expenses ratio is increasing in all the fiscal year. On the basis of the study, it is said that

there is no positive relationship between net sales, cost of goods sold and operating expense.

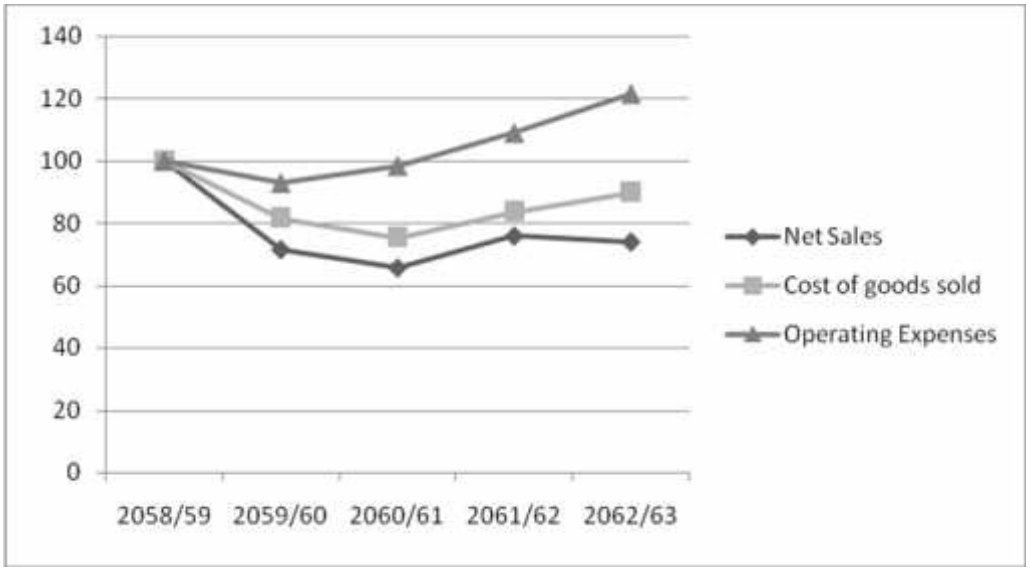
Table 4.22

Net Sales, Cost of Goods Sold and Operating Expenses

F.Y.	Net Sales	Index	Cost of Goods Sold	Index	Operating Expenses	Index
2058/59	719.30	100	473.08	100	33.40	100
2059/60	515.31	71.64	386.17	81.63	31.05	92.96
2060/61	473.39	65.81	356.56	75.37	32.87	98.41
2061/62	546.46	75.97	395.77	83.66	36.36	108.86
2062/63	532.83	74.08	425.48	89.94	40.52	121.38

Source: Annual Reports of UCIL

Figure 4.4



4.2.5 Trend of Net Sales, Cost of Goods Sold and Gross Profit

The trend of net sales and average inventory shows the relationship between net sales and average inventory. Net sales show the decreasing trend in fiscal year 2059/60 and 2060/61. Again in the fiscal year 2061/62 the trend is slightly increased than in the fiscal year 2062/63 the trend slightly decreased. The trend of cost of goods sold is decreasing slightly in the fiscal year 2058/59, 2059/60, 2060/61 and then slightly is increasing in the fiscal year 2061/62 and 2062/63. Again, the trend of gross profit ratio

is decreasing in the fiscal year 2059/60 and 2060/61. The trend of gross profit ratio is decreased in the fiscal year 2061/62 and the trend of gross profit is decreased in the fiscal year 2062/63. It shows the inefficiency of management to cost, which is clarified from the graph 4.5.

Table 4.23

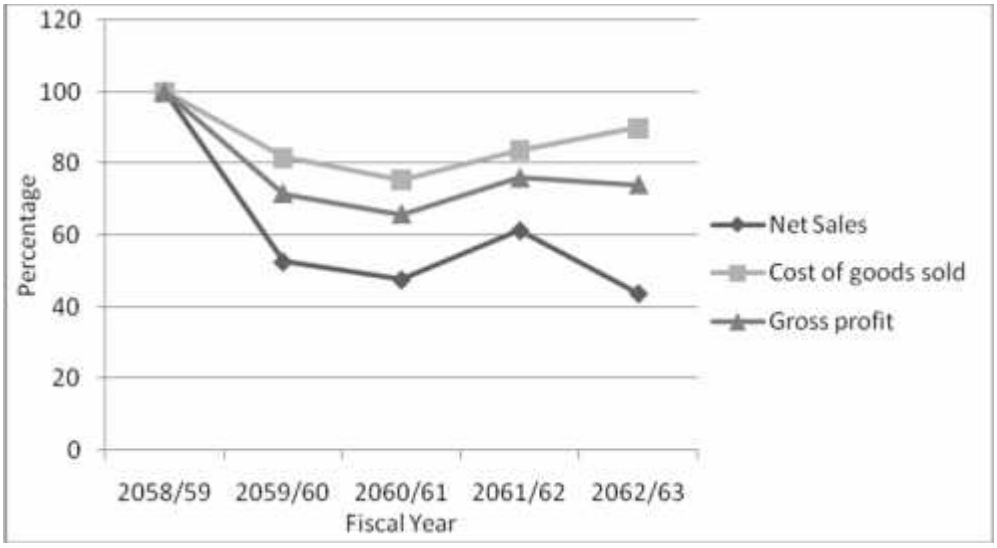
Net Sales, Cost of Goods Sold and Gross Profit

F.Y.	Net Sales	Index	Cost of Goods Sold	Index	Gross Profit	Index
2058/59	719.30	100	473.08	100	246.21	100
2059/60	515.31	71.64	386.17	81.63	129.14	52.45
2060/61	473.39	65.81	356.56	75.37	116.83	47.45
2061/62	546.46	75.97	395.77	83.66	150.70	61.20
2062/63	532.83	74.08	425.48	89.94	107.35	43.60

Source: Annual Reports of UCIL

Figure 4.5

Net Sales, Cost of Goods Sold and Gross Profit



4.3 Correlation Analysis

Correlation analysis is a statistical tools and techniques which measures the degree of relationship between two or more than two variable, as the case may be. As mentioned earlier its value lies in between 0 + 1. Higher the value of correlation of coefficient i.e. as it approaches to 1 the variables are said to be closely related. This relationship may

be positive or negative. In case of positive relationship the variable changes to the same direction where as in negative correlation the variables under consideration change to the opposite direction. In this research analysis an attempt is made to know the degree of relationship between the variables.

4.3.1 Karl Person's Coefficient Of Correlation

It measures the relationship between two variables. It is denoted by 'r'. In the present context the coefficient of correlation is in order to examine the relationship between two variables.

The basic purpose of computing correlation helps the UCIL to take promotes decision.

4.3.2 Probable Error

The probable error of the coefficient of correlation helps in interpreting the value, and measures the reliability of the coefficient of correlation.

The value of 'r' is less than probable error, there is no evidence of correlation and if the value of correlation and of the value of 'r' is greater than probable error, there is evidence of correlation.

A. Karl Person's Coefficient Of Correlation and Probable Error of Gross Profit and Net Sales

In the present case, coefficient correlation and probable error of gross profit and net sales is obtained by using following method.

Calculation of coefficient of correlation and probable error of gross profits and net sales of UCIL have been shown in the following calculation.

A sample calculation of correlation between gross profit and net sales.

Let, X = Gross Profit

Y = Net Sales

(Rs. in millions)

Fiscal year	X	Y	d_x $(x-\bar{x})$	d_y $(y-\bar{y})$	d_x^2	d_y^2	d_xd_y
2058/59	246.21	719.30	96.16	-161.24	9246.75	25998.34	-15504.84
2059/60	129.14	515.31	-20.91	42.75	437.23	1827.56	-893.90
2060/61	116.83	473.39	-33.22	85.21	1103.57	7260.74	-2830.68
2061/62	150.70	549.47	0.65	-8.59	0.42	73.79	-5.58
2062/63	107.35	532.83	-42.70	25.23	1823.29	636.55	-1077.32
Total	750.23	2790.30			12611.26	35796.98	20312.32

$\sum x = 750.23$

$\sum y = 2790.23$

N= 5

$\bar{x} = \frac{\sum x}{N} = \frac{750.23}{5}$

$\bar{y} = \frac{\sum y}{N} = \frac{2790.23}{5}$

$\sum d_x^2 = 12611.26$

$\sum d_y^2 = 35796.98$

$\sum d_x d_y = 20312.32$

$= \frac{\sum dx.dy}{\sqrt{\sum dx^2 \sum dy^2}}$

$= \frac{-20312.32}{\sqrt{12611.26 \times 35796.98}} = 0.96$

Coefficient of determination(R) $= r^2$

$= (-0.96)^2$

$=0.9216$

Again, calculation of probable error between two variables.

P.Er = $0.6475x \frac{1-r^2}{\sqrt{n}}$

Where, r= -0.96, N= 5

P.Er =0.6745 × $\frac{1-(-0.96)^2}{\sqrt{5}}$

=0.0784×$\frac{0.6745}{2.2361}$ = 0.0236

From the above calculation of correlation between gross profit and net sales of UCIL comes out to be r_{xy} = -0.96 thus, this correlation indicates that there is very low correlation between gross profit and net sales. It means, UCIL gross profit and net sales is not good.

Since, the value of 'r' is smaller than probable error i.e. r < P.Er, therefore, there is no evidence of correlation.

The Karl person's coefficient of correlation between gross profit and net sales of UCIL has a negative correlation 'r' of -0.96.

B. Karl Person's Coefficient Of Correlation and Probable Error of Operating Expenses and Net Sales

It indicates the relationship between the total expenses and net sales. In this case, coefficient correlation and probable error of operating expenses and net sales is obtained by using following method.

A sample calculation of correlation between operating expenses and net sales.

Let, X = Operating expenses

Y = Net Sales

(Rs. in 10 million)

Fiscal year	X	Y	d_x $(x-\bar{x})$	d_y $(y-\bar{y})$	d_x^2	d_y^2	d_xd_y
2058/59	33.40	719.30	-1.44	719.30	2.0736	26192.83	233.05
2059/60	31.05	515.31	-3.79	515.31	14.36	1776.45	159.74
2060/61	32.87	473.39	-1.97	473.39	3.88	7066.08	165.59
2061/62	36.36	546.46	1.52	546.46	2.31	120.78	-16.70
2062/63	40.52	532.83	5.68	532.83	32.26	606.53	-139.88
Total	174.20	2787.29			54.84	29462.67	401.80

$\sum x = 174.2$

$\sum y = 2787.29$

N= 5

$\bar{x} = \frac{\sum x}{N} = \frac{174.2}{5} = 34.84$

$\bar{y} = \frac{\sum y}{N} = \frac{2787.29}{5} = 557.458$

$\sum d_x^2 = 54.84$

$\sum d_y^2 = 29462.67$

$\sum d_x d_y = 401.8$

$$= \frac{\sum dx.dy}{\sqrt{\sum dx^2 \sum dy^2}}$$

$$= \frac{401.80}{\sqrt{54.84 \times 29412.67}} = 0.32$$

Coefficient of determination(R) = r^2

$$= (0.32)^2 = 0.1024$$

Again, calculation of probable error between two variables.

$P.Er = 0.6475 \times \frac{1-r^2}{\sqrt{n}}$

Where, r= 0.32, N= 5

$P.Er = 0.6745 \times \frac{1-(0.32)^2}{\sqrt{5}}$

P.Er = 0.271

From the above calculation of correlation between operating expenses and net sales of UCIL comes out to be $r_{xy} = 0.32$ thus, this correlation indicates that there is moderate degree of correlation between operating expenses and net sales.

Since, the value of 'r' is smaller than probable error i.e. r < P.Er, therefore, there is no evidence of correlation. In other words, the correlation between operating expenses and net sales is not significant which reveals that hapharzed operating expenses in the capital structure UCIL seems to be disadvantage in terms of profitability for the industry.

The Karl person's coefficient of correlation between operating expenses and net sales of UCIL has registered a positive correlation 'r' of 0.32 that signify that relationship between two variables is significant.

C. Karl Person's Coefficient Of Correlation and Probable Error of Long – term Debt and Capital Employed

Calculation of coefficient of correlation and probable error of long – term debt and capital employed of UCIL. It has been shown in the following calculation.

A Sample calculation of correlation between Long –Term Debt and Capital Employed

Let, X = long – term debt

Y = Capital employed

(Rs. in 10 million)

Fiscal Year	X	Y	d_x $(x-\bar{x})$	d_y $(y-\bar{y})$	d_x^2	d_y^2	$d_x d_y$
2058/59	1966.18	6446.38	75.944	554.51	5767.49	307481.34	42111.71
2059/60	1910	6154.40	19.764	262.53	390.616	68922.00	5188.64
2060/61	1880	5860.91	10.236	(30.96)	104.776	958.52	316.91
2061/62	1855	5672.80	35.236	(219.07)	1241.58	47991.66	7741.35
2062/63	1840	5324.86	50.236	(567.01)	2523.66	321500.34	28484.31
Total	9451.18	29459.35			10028.122	457503.86	83842.92

$\sum x = 9451.18$

$\sum y = 29459.35$

N= 5

$\bar{x} = \frac{\sum x}{N} = \frac{9451.18}{5} = 1890.236$

$\bar{y} = \frac{\sum y}{N} = \frac{29459.35}{5} = 5891.87$

$\sum d_x^2 = 10028.122$

$\sum d_y^2 = 457503.86$

$\sum d_x d_y = 83842.92$

$$= \frac{\sum dx.dy}{\sqrt{\sum dx^2 \sum dy^2}}$$

$$= \frac{-83842.92}{\sqrt{10028.122 \times 457503.80}} = 1.238$$

Coefficient of determination(R) = r^2

$= (1.238)^2 = 1.5326$

Again, calculation of probable error between two variables.

P.Er = 0.6475x $\frac{1-r2}{\sqrt{5}}$

Where, r= -1.5326, N= 5

P.Er =0.6745 $\times \frac{1-(1.5326)^2}{\sqrt{5}}$

$= \frac{-0.5326 \times 0.6745}{2.2361}$

= - 0.1607

P.Er = - 0.1607

From the above calculation of correlation between long – term debt and capital employed of UCIL comes out to be r_{xy} = 1.238 thus, this correlation indicates that there is moderate degree of correlation between long – term debt and capital employed.

Since, the value of 'r' is greater than probable error i.e. r > P.Er, the value of 'r' is significant. In other word, the correlation between long – term debt and capital employed is significant.

The Karl person's coefficient of correlation between long – term debt and capital employed of UCIL has registered a positive correlation 'r' of 1.238 that signify that relationship between long term debt and capital employed significant.

4.4 Major Findings of the Study

On the basis of ratio analysis, tables and trend analysis, statistical tools, personal visit to UCIL other published and unpublished information, some facts are found. The major findings of this study during the period of five years in Udaypur Cement Industry Limited from the analysis of secondary sources are summarized below.

1. The major components of current assets of Udaypur Cement Industries Limited are inventories, receivables and cash & bank balance respectively.

2. The current ratio of UCIL recorded a highest ratio of 1.31 times in the fiscal year 2058/59 and that of lowest 1.08 times in the fiscal year 2060/61 and 2062/63. The mean value is 1.15 times and the highest index is 100% in the fiscal year 2058/59 and the lowest index is 82.44% in the fiscal year 2060/61. The table shows S.D. and C.V. 0.2 and21.74% respectively. The above table shows that the average ratio of last 5 years of UCIL. The average ratio shows below the normal standard which shows the decreasing trend of current ratio which means that the industry‘s obligation to pay its short term liability has deteriorate in these years.
3. The inventory occupies major share in current assets. It has shown fluctuating trend. Debtors, advance expenses & receivable maintain second position in ranking. It has been in increasing trend in the time of the study. Cash & bank balance maintain last in 3rd rank in average. It has also sometimes increased and sometimes decreased.
4. The trends of current liabilities of Udaypur Cement Industries Limited have some increasing consistency. It adopts increasing. When percentage of current liabilities for fiscal year 2058/59 is assumed as 100%, the percentage current liabilities in 2059/060, 2060/061, 2061/062 and 2062/63 are 110%, 134.73%, 144.70% & 165.46% respectively.
5. Networking capital has occupied major portion in working capital. The liquidity position of the Industry during the study period seems very poor.
6. The current ratio of Udaypur Cement Industries Limited in average is 1.15 time. Taking standard ratio 2:1 the average ratio of industry does not seem satisfactory i.e. liquidity position of Udaypur Cement Industries Limited looks poor.
7. It is observed from the table that quick/liquid ratio of UCIL shows similar trend. UCIL has recorded a highest ratio of 0.41 times in all the year except a in the fiscal year 2061/62 and the lowest ratio is 0.38 in the fiscal year 2061/62.The average value is 0.11 times. The highest index is 100% in all the year except a in the fiscal year 2061/62 and the lowest index is 92.68% in the fiscal year 2061/62. The table also shows standard deviation and coefficient of variation 0.33 and 300% respectively. Generally 1:1 is considered satisfactory as compared to the manufacturing industry. The table of quick ratio shows that UCIL has an unsound liquidity position in the research period. But, there is higher fluctuation in this ratio.

8. Standard of quick ratio is 1:1. Quick ratio of UCIL of each study period is below the standard which shows that the liquidity position of the Udaypur Cement Industries Limited seems not satisfactory.
9. The long –term debt to net worth ratio of UCIL shows a large share of financing by creditors relatively to the owners, therefore there is larger claim of the shareholders against the assets of the firm. Normally, low ratios are favourable for the firm.
10. Debt to Capital Employed ratio is normally, high ratio is not favourable to the firm because this shows the grater claim of debt holders than that of shareholders. Low result means lower the claim of debt holders and higher claim of the share of shareholders. In the case of debt to capital employed ratio, ratios are in increasing order. Ratios are found to be little bit lower. So the debt to shareholder shows favourable.
11. The average total debt to net worth ratio is 0.622 times which reflects that the UCIL has lower portion of debt capital against equity, which is favourable for the company's point of view.
12. The high C.V. shows highly fluctuation on those ratios in the research period. The low C.V. shows slowly fluctuation on that ratio in research period. The interest coverage ratio is highly unsatisfactory it means that there is no capacity to pay interest earning profit.
13. The fixed assets turnover ratio seems to unfavourable due to investing huge amount of fixed assets and fewer amounts of sales as compared to fixed assets. The trend of those ratios seems to be unfavourable, since in cement industry a large amount of sum should be invested, so there is low turnover.
14. Capital employed ratio is not satisfactory.
15. Total assets turnover ratio of UCIL is highly below. It means UCIL's ratios are highly unsatisfactory. The total assets creates nominal of sales per rupees. Since, it seems to be highly unsatisfactory because it is due to the high investment in total assets. The company could earn profit if it fully utilized its available resources. It also represents the inefficiency of management.
16. The company has invested an excess amount on inventory. The average inventory turnover ratio of Udaypur Cement Industries Limited looks very poor. It shows that

the inventory management of the industry seems very poor. The company is not able to maintain proper balance between inventory and sales.

17. The inventory turnover of UCIL showed unsatisfactory position in comparison to manufacturing industry standard (4 times). Inventory turnover ratio shows how rapidly the inventory is turned into receivables through sales. The higher inventory turnover ratio may invite stock out problem however; this problem is not observed over the study period. There is no stock out problem.
18. Net profit margin indicates inefficiency of management to earn profit. It can see from the table, the net profit margin ratio of the study period is highly unsatisfactory or it can say that ratios are extremely lowered than that of required.
19. It is observed from table that the return on total assets ratio is very low in all fiscal year and index is also very much low. The mean value and S.D. and C.V. of UCIL of the study periods are (0.0191), 0.0071 and (37.17) % respectively. The return on total assets ratios of UCIL is not satisfactory to look the table. The table indicates that the management failed to use its assets in its full capacity.
20. The return on capital employed ratios of UCIL is not satisfactory looking the table. The table indicates that the management failed to use its assets in its full capacity. That means UCIL has not been successful to utilize its funds efficiently.
21. The return shareholder's equity ratios of UCIL are not satisfactory looking the above table. The table indicates that the management has not used the owner's capital soundly.
22. Liberal credit policy follows loose credit policy and as a result it can incur higher bad debt losses & face the problems of liquidity. Thus the management of Udaypur Cement Industries Limited should take care to achieve optimum balance that maximizes the overall return of the firm.
23. The average gross profit of Udaypur Cement Industries Limited during the study period is 26.80% but the company is operating at an average loss of 28.45%.
24. Operating cost of the industry is also high. It reveals the poor management of assets and liabilities. The company is suffering from loss due to poor liquidity position & over investment in inventory. The main reason is that the company is not operating at full capacity.

25. The above table shows that the cost of goods sold ratio is not satisfactory over the study period. Therefore, the company must try to reduce cost of goods sold for generating profit.
26. The nature of current assets and current liabilities are not standard form. It is slightly below standard i.e. 2:1 and improving.
27. Net sales, costs of goods sold and gross profit have not taken positive trend.
28. There is substantial gap between sales and production target and achievement it means that management of UCIL has not been successful to operate smoothly its capacity.
29. Lime-stone, coal, iron –ore, gypsums, power are the major components of the industry.
30. UCIL has been suffering from great loss since 2058/59 because its taking long time to established as compared to the estimated time.
31. When the company will operate at full capacity, there will be positive impact on profitability.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The Nepal's forward financial system is dominated by the banking system and it is necessary for the upliftement of nation. Money finance and financial institutions have come to play practically indispensable role in the process of Economic development. So HMG/N paid their attention toward fully liberalized economic policy. The present study is divided in to five chapters, Introduction conceptual framework and view of literature, Research methodology, presentation and analysis of data and last summary, conclusion and recommendation.

Chapter one, we have discussed the process of industrialization and its role & importance in Nepal with overall picture of Udaypur Cement Industries Limited. The concepts of financial performance and its importance in manufacturing company like Udaypur Cement Industries Limited have also been included. Besides it, background of the study, statement of the problem, focus of the study objectives of the study, needs and importance of the study, limitations of the study, Research metrology and organization of the study.

In second chapter conceptual framework and review of literature mainly reviews of literature gives the concept of financial performance of UCIL where views of different writers have been discussed. Findings of different research paper related to the cement factory have also been discussed here. The basic objective of the study is to examine the management financial performance of Udaypur Cement Industries Limited

The third chapter research methodology consists of research design, nature and source of data, population and sample of the study. Data processing procedure and tools and techniques used in data analysis.

The forth chapter is the main part of the study which deals with presentation and analysis of relevant data using appropriate tools. Under these main ratios, various ratio positions are studied in the chapter four. In order to test the relationship between various components of working capital Karl Pearson‟s coefficient of correlation 'r' is calculated in the appendixes and the results have been analyzed in the chapter four.

The necessary data have been taken desired from the balance sheet and profit and loss account of Udaypur Cement Industries Limited from fiscal year 2958/59 to 2062/63 with the help of research methodology described in chapter three. These data are represented and analyzed in chapter four.

In the last chapter an attempt has been made to present summary of findings, conclusion & recommendations for Udaypur Cement Industries Limited.

5.2 Conclusion

The following conclusions have been drawn through the study.

1. The major components of current assets of Udaypur Cement Industries Limited are inventories, receivables and cash & bank balance respectively.
2. The average current ratio shows below the normal standard which shows the decreasing trend of current ratio which means that the industry‟s obligation to pay its short term liability has deteriorate in these years.
3. The inventory occupies major share in current assets. It has shown fluctuating trend. Debtors, advance expenses & receivable maintain second position in ranking. It has been in increasing trend in the time of the study. Cash & bank balance maintain last in 3rd rank in average. It has also sometimes increased and sometimes decreased.
4. The trends of current liabilities of Udaypur Cement Industries Limited have some increasing consistency. Networking capital has occupied major portion in working capital. The liquidity position of the Industry during the study period seems very poor.

5. The current ratio of Udaypur Cement Industries Limited in average is 1.15 time. Taking standard ratio 2:1 the average ratio of industry does not seem satisfactory i.e. liquidity position of Udaypur Cement Industries Limited looks poor.
6. Standard of quick ratio is 1:1. Quick ratio of UCIL of each study period is below the standard which shows that the liquidity position of the Udaypur Cement Industries Limited seems not satisfactory.
7. The long –term debt to net worth ratio of UCIL shows a large share of financing by creditors relatively to the owners, therefore there is larger claim of the shareholders against the assets of the firm. Normally, low ratios are favourable for the firm.
8. Debt to Capital Employed ratio is normally, high ratio is not favourable to the firm because this shows the grater claim of debt holders than that of shareholders. Low result means lower the claim of debt holders and higher claim of the share of shareholders. In the case of debt to capital employed ratio, ratios are in increasing order. Ratios are found to be little bit lower. So the debt to shareholder shows favourable.
9. The average total debt to net worth ratio is 0.622 times which reflects that the UCIL has lower portion of debt capital against equity, which is favourable for the company's point of view.
10. The high C.V. shows highly fluctuation on those ratios in the research period. The low C.V. shows slowly fluctuation on that ratio in research period. The interest coverage ratio is highly unsatisfactory it means that there is no capacity to pay interest earning profit.
11. The fixed assets turnover ratio seems to unfavourable due to investing huge amount of fixed assets and fewer amounts of sales as compared to fixed assets. The trend of those ratios seems to be unfavourable, since in cement industry a large amount of sum should be invested, so there is low turnover.
12. Capital employed ratio is not satisfactory.
13. Total assets turnover ratio of UCIL is highly below. It means UCIL's ratios are highly unsatisfactory. The total assets creates nominal of sales per rupees. Since, it seems to be highly unsatisfactory because it is due to the high investment in total assets. The company could earn profit if it fully utilized its available resources. It also represents the inefficiency of management.

14. The company has invested an excess amount on inventory. The average inventory turnover ratio of Udaypur Cement Industries Limited looks very poor. It shows that the inventory management of the industry seems very poor. The company is not able to maintain proper balance between inventory and sales.
15. The inventory turnover of UCIL showed unsatisfactory position in comparison to manufacturing industry standard (4 times).
16. Net profit margin indicates inefficiency of management to earn profit. It can see from the table, the net profit margin ratio of the study period is highly unsatisfactory or it can say that ratios are extremely lowered than that of required.
17. It is observed from table that the return on total assets ratio is very low in all fiscal year and index is also very much low.
18. The return on capital employed ratios of UCIL is not satisfactory looking the table. The table indicates that the management failed to use its assets in its full capacity. That means UCIL has not been successful to utilize its funds efficiently.
19. The return shareholder's equity ratios of UCIL are not satisfactory looking the above table. The table indicates that the management has not used the owner's capital soundly.

20. The average gross profit of Udaypur Cement Industries Limited during the study period is 26.80%.
21. Operating cost of the industry is also high. It reveals the poor management of assets and liabilities. The company is suffering from loss due to poor liquidity position & over investment in inventory. The main reason is that the company is not operating at full capacity.
22. The above table shows that the cost of goods sold ratio is not satisfactory over the study period. Therefore, the company must try to reduce cost of goods sold for generating profit.
23. Net sales, costs of goods sold and gross profit have not taken positive trend.
24. Lime-stone, coal, iron –ore, gypsums, power are the major components of the industry.
25. UCIL has been suffering from great loss since 2058/59 because it's taking long time to establish as compared to the estimated time.

26. When the company will operate at full capacity, there will be positive impact on profitability.

5.3 Recommendations

On the basis of financial analysis, it is observed that the industry is financially weak. If this situation continues for a few years, it will suffer liquidation.

The industry has been running on heavy loss each year. It has been running on the help of OECF Japan and government investment. It has a burden on public revenue. So, not only the management but also government must take step to improve the industry position. On the basis of analysis, I would like to recommend the following suggestions to the management of UCIL and the government. If these recommendations are adopted by both, UCIL will be benefitted undoubtedly.

1. The Udaypur Cement Industries Limited should pay proper attention on the investment in current assets. This avoids risk in financial performance of UCIL. Many financial tools and techniques (i.e. ratio analysis, statistical tools analysis, and correlation coefficient test) help the Udaypur Cement Industries Limited to identify the deviation.
2. The liquidity position has not been very poor and should improved adopting an appropriate strategy of maintaining an adequate liquidity position either by more current assets or by reducing the level of current liabilities organizing both in the variables.
3. Inventory is occupying large portion in the total current assets. Therefore the huge amount of raw materials & inventory kept by Udaypur Cement Industries Limited should be reduced in order to maintain proper balance in sales and production. The problem of over and under stocking have also been faced by the industry. To avoid this situation, Udaypur Cement Industries Limited should apply stable inventory policy.
4. The Udaypur Cement Industries Limited has invested huge amount of capital in current assets like inventory. The amount of over investment in inventory should be reduced & the surplus from this should be invested in capital expenditure in order to expand the production capacity & increase the sales volume to earn more profit.

5. The activity ratio shows the inefficiency of management due to lower amount of production as compared to its capacity. The production level should be increased fully utilizing its present fixed assets, adopting short range and long range production plan. Unnecessary fixed assets should be sold off. The plant layout should be managed in order to help in production process if it is necessary.
6. Receivables with reference to sales, Udaypur Cement Industries Limited have fluctuating trend, which implies there is loose credit policy i.e. liberal credit policy. To avoid the problems of higher level of investment in receivables the industry should have maximum cash sales for this the customers should be provided discounts facilities on cash purchases. It should avoid policy of credit sales. The customers should be acquainted with the period of credit. To accelerate the collection, the customers should be provided discount facilities.
7. The management of Udaypur Cement Industries Limited should give due attention for minimizing the administrative and operating cost of the industry. The unskilled man Power, over staffing, non systematic purchasing of raw materials, unnecessary expenses and misuse of facilities are the major causes for higher operating cost. Systematic purchasing system, appropriate number of staff and reduction in other overhead are main elements to overcome this problem.
8. Both the inventory turnover ratios and the receivable turn over ratios are in miserable condition. If present trend has not been controlled, Udaypur Cement Industries Limited may have to pay huge cost for it It is suggested that industry should curtail its unnecessary stock of material and should collect debtors as quick as possible. For this the company should make regular supervision to find adequacy in working capital when ever possible. This help a lot to avoid risk is management of working capital.
9. The available funds should be invested in the sector productive function.
10. Goals and objectives should be defined clearly with regard sales and production. The management should make short range and long range sales and production plan. It should be tried to minimize the gap between planned and actual by adopting short range plan towards long range plan.

11. Coal, Iron-ore and Gypsums should be supplied competitive tender. They must be supplied into specific time period otherwise punishment system should be adopted to maintain its stock out problem.
12. The management should minimize heat and power expenses, wage and salaries and administrative expenses.
13. Overstaffing should be avoided. Motivational programs should be conducted in this way so that they would think it is our industry. Reward and punishment system should also be applied efficiently.
14. The sales of Udaypur Cement Industries Limited during the study period have not maintained according to the size of current assets. To maintain optimum size of sales as per the size of current assets the company should invest on advertisement as well as other promotional aspects.
15. The divisional manager should be specialized in his department so that he will be more familiar with the problems and situation of the particular department could deal with the problems of the department.
16. The Udaypur Cement Industries Limited should develop positive managerial attitude towards productive investment. The manager & directors have to bear huge responsibility and to keep interest to exercise the knowledge in investment decision.

BIBLIOGRAPHY

Books

Adhikari, G.P. (2000). *Proposal and Thesis Writing.* Kathmandu: Ratna Pustak Bhandar.

Adhikari, P. (1993). *Evaluating the Financial Performance of the NBL*. An Unpublished Master Degree Thesis Submitted to Central Department of Management, T.U. Kirtipur.

Agrawal, G.R. (2002). *Dynamics of Business Environment in Nepal,* Kathmandu: M.K. Publisher and Distributors.

Agrawal, N.K. (1993). *Management of Working Capital.* New Delhi: Sterling Publishing Company Limited.

Bajracharya, P., Ojha, K., Goet, J., & Sharma S. (2004), *Managerial Accounting*. Kathmandu: Asmita Books Publisher & Distribution.

Bhandari, D.R. (2003). *Banking and Insurance. (3rd edition).* Kathmandu: Aayush Publication.

Butcheet, F.F. (1948). *Corporate Finance.* New Work: Hamper and Low Publications.

Chakraborty, H. & Chakraborty, S. (1997). *Management Accounting. (2nd Edition).* New Delhi: Oxford University Press.

Dahal, M.K. (2002), had submitted the thesis on the topic "A study of the financial performance of joint venture banks in Nepal (A comparative study of Himalayan bank limited and Bangladesh bank limited)."An Unpublished Master Degree Thesis Submitted to Central Department of Management, T.U. Kirtipur).

Department of Management, T.U. Kirtipur.

Economic Survey 2007/08

Fago, G,. Subedi, D.P., & Gyawali, A., (2003). *Management Accounting*. Kathmandu: Buddha Academic Publishers & Distributors Pvt. Ltd.

Francis, J.C. (1972). *Investment: Analysis and Management.* New York: McGraw Hill Book Company, Inc.

Gautam, R.R. & Thapa, K. (2003). *Capital Structure Management.* Kathmandu: Asmiata Books Publishers and Distributors.

Gitman, L. (1994*). Principles of Managerial Finance*. New York: Harper and Row Publishers.

Gupta, S.C. (1997). *Fundamentals of Statistics.* New Delhi: Himalaya Publishing House.

Hampton, J.J. (1998). *Financial Decision Making.* New Delhi: Prentice Hall of India Pvt. Ltd.

Helfert, E.A. (1992). *Techniques of Financial Analysis.* Bombay: Jaico Publishing House.

Himalayan Bank Limited (2003/04 to 2007/08). *Annual Report.* Kathmandu.

Jain, P. (1996). *Financial Management.* New Delhi: Pointer Publisher.

Jain, S.P. & Narang, K.L. (1993). *Advanced Accounting.* New Delhi: Kalayani Publication.

Joshi, R. (2001). *Research Methodology.* Kathmandu: Buddha Acadamy.

Kaplan, R.S. & Anthony A.A. (1998). *Advanced Management Accounting. (3rd edition).* New York: Holt, Rimetant and Winston.

Kothari, C.R. (1994). *Quantitative Techniques*. New Delhi: Vikas Publishing House Pvt. Ltd.

Levin, R.I., and Rubin, D.S. (1995). *Statistics for Management*. New Delhi: Prentice Hall of India Pvt. Ltd.

Luitel, N.K. (2003). *A Study on Financial Performance Analysis of Nepal Bank Limited.* An Unpublished Master Degree Thesis Submitted to Central Department of Management, T.U. Kirtipur.

Luitel, N.K.(2003). *A Study on Financial Performance Analysis of Nepal Bank Limited.* An Unpublished Master Degree Thesis Submitted to Central Department of Management, T.U. Kirtipur.

Munakarmi, S.P. (2002). *Management Accounting. (2nd Edition).* Kathmandu: Buddha Academic Publishers and Distributions Pvt. Ltd.

Myer, J.N. (1961). *Financial Statement Analysis*. Englewood Cliffs: Prentice Hall.

Needles, B.E. (1989). *Financial Accounting*. Boston: Houghton Mifflin Company.

Nepal Rastra Bank (2007/08). *Macro Economic Situations.*

Nepal Rastra Bank (2007/08). *Economic Report.*

Nepal Rastra Bank, Act – 2058

Pandey, I.M. (1997). *Financial Management*. New Delhi: Vikas Publishing House Pvt. Ltd.

Pandey, I.M. (1999). *Financial Management.* New Delhi: Vikas Publishing House Pvt. Ltd.

Pant, P.R. (2005). *Business Environment in Nepal*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Pant, Y. (1996). *The Discrepancy between Collection and Utilization of Resources*. An Unpublished Master Degree Thesis Submitted to Central Department of Management, T.U. Kirtipur.

Pradhan, S. (1992*). Basis of Financial Managemen*t. Kathmandu: Educational Enterprises Pvt. Ltd.

Rao, R.K.S. (1992). *Financial Management Concept and Application.* New York: MacMillan Publishing Company, Pvt. Ltd.

Schall, L.D. & Haley, C.W. (1991). *Introduction to Financial Management.* New York: McGraw Hill International Edition Finance Series.

Shahi, S. (2009). *Working Capital of Cement Industries in Nepal (With Special Reference to Udayapur Cement Industry Ltd.* An Unpublished Master Degree Thesis Submitted to Central Department of Management, T.U. Kirtipur).

Sharma, P.K. & Chaudhary, A.K. (2058), *Statistical Methods.* Kathmandu: Khanal Books and Publication.

Shrestha, B. (2003). *A Comparative Analysis of Financial Performance of the Selected Joint Venture Banks*. An Unpublished Master Degree Thesis Submitted to Central Department of Management, T.U. Kirtipur.

Shrestha, K.D. (2009). *A Comparative Study on Financial Performance of Everest Bank Limited and Himalayan Bank Limited*. An Unpublished Master Degree Thesis Submitted to Central Department of Management, T.U. Kirtipur.

Shrestha, M.K. (1980). *Financial Management*: *Theory and Practice.* Kathmandu: Curriculum Development Centre T.U.

Srivastava, R.M. (1993). *Financial Management.* Kathmandu: Pragati Prakashan.

Thapa, K. (2060). *Corporate Financial Management. (2nd edition).* Kathmandu: Khanal Books and Stationary.

Upadhya, K.M. (1985*). Principles of Management*. New Delhi: Kalyani Publishers.

Van Horne, J. C. (1998). *Financial Management and Policy.* New Delhi: Prentice Hall of India.

Vane Horne, J.C. (1994). *Financial Management and Policy. (9th Edition).* New Delhi: Prentice Hall of India Pvt. Ltd.

Vanhorne, J.C. & Wachowics, J.M. (1997). *Fundamentals of Financial Management.* New Delhi: Prentice Hall of India, Pvt. Ltd.

Westen, J.F. & Copeland, E. (1992). *Managerial Finance*. USA: The Dryden Press.

Weston, J.F. & Brigham, E. (1996). *Essential of Managerial Finance*. *(11th Edition).* Chicago: The Dryden Press.

Weston, J.F. & Brigham, E.F. (1972). *Management Finance*. New York: Holt Suanders International Editions.

Websites

www.bangladeshbank.com

www.himalayanbank.com

www.nepalstock.com

www.nrb.org.np