RATIO ANALYSIS OF A PRIVATE LIMITED COMPANY WITH RELEVANCE TO CHANGE IN TYPE OF ENTERPRISE - A CASE STUDY OF WRITE FINE PRODUCTS PVT. LTD. UMBRAGAM, GUJARAT

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Abstract

Capital structure talks about relative magnitude and proportion .each component of capital structure has a different cost of firm. Though capital structure talks about long term sources of finance. Generally proprietary firm refers to owners of firm i.e. capital and long term creditors. This paper examines the relation between capital structure and a firm's performance with reference to change in organization type. The main aim of this study is to know the relationship between capital structure and performance of a private limited company turned registered firms. It's a very interesting and unique change. Generally firms get registered from unregistered form of partnership. But in Gujarat now days many firm in different sector are changing their format. To get the result, ratios are used as tools to know value maximization, cost minimization, future investment and growth pattern of a registered firm which is turned in to a private limited company. This paper contains multiple hypothesis to cross verify overall financial health of write fine pvt ltd. Gujrat with effects of before and after as a private company.

Keywords: Capital structure, Cost minimization, financial health

INTRODUCTION

In 1974 at Umbragam, Gujarat, an enterprise named **R. R. Industries** was established. It was an unregistered partnership firm who started manufacturing of wooden pencils under the visionary leadership of its founders – **Late Shri Rasiklal Raveshia** and **Late Shri Mansuklal Rajani**. Today, it boasts of a wide range of color and stationery products for students under the brand name "DOMS". They are the finest and largest manufacturer of Pencils in India.

The company has been on a steady growth front with setting up one manufacturing facility after another, to become the single largest and most popular brand for wooden pencils, catering history with high rate of sale within Indian and International stationery products, within a span of more than 30 years. Apart from pencils, the company also manufactures a wide range of student's stationery and color products like Wax Crayons, Oil Pastels, Color Pencils, Sketch Pens, Erasers, Ballpoint Pens, Sharpeners, and Mathematical Instrument Boxes etc.

Write fine Products Private Limited manufactures, exports, and supplies stationery products. It offers wooden pencils, color pencils, wax crayons, erasers, sharpeners, plastic scales, geometry boxes, DF pens, and non-wood pencils. They are pioneers of triangular pencils in India. Due to

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introduction of unique hexagonal shape of pencils to stationery markets they have clients other than India in Dubai, Egypt, Nepal, Bangladesh, and the United Arab Emirates with a production capacity of 3 million pencils a day with 6 full capacity running plants and a work force of 3000, combined with skilled, semi -skilled and unskilled labor. A quality certification is done as per EN71-(3) European Standard System of product safety for children and ASTM B-4236 standards. As they work for child segment. Credit policy in their company from 7 to 45 days. The operating cycle of R.R. Industries its 4months & 30 days.

HYPOTHESIS

Write fine is a company which was working as an unregistered partnership firm for n number of years till 2008. Later they recognize the worth and value of registration. So get registered. But in second round of reforms they get idea of selling their products abroad. But no foreign organization was ready to do business with them due to their organization type i.e. partnership firm. Government suggested them to get registered as company. So they get registered as a private company limited by liability in form of shares.

This move tempted us to check the profitability of an organization with same working force and management who has just changed its registration module i.e. from a partnership firm to a private limited company? The second and very strong hypothesis testing is about does the change in capital structure play important role in boosting the profitability? In a broader sense, capital structure includes shares reserves etc., and the components of the total capital the optimum capital structure may be defined as the capital maximize value of firm.

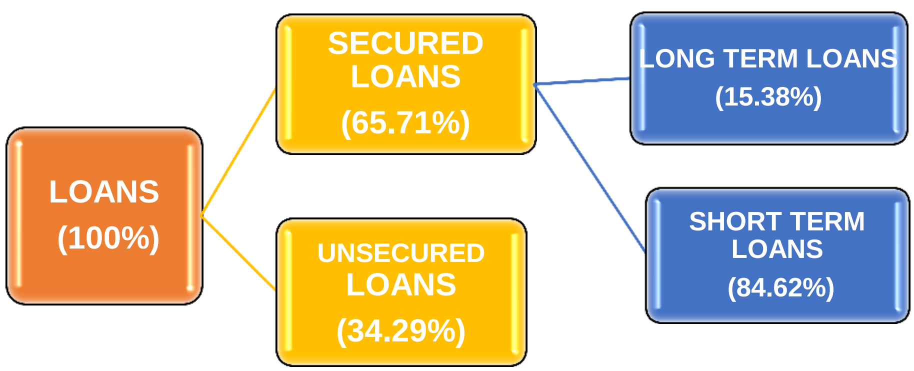

Figure 1- loan structure at Write fine

CONSTITUTION OF THE COMPANY FOR CAPITAL STRUCTURE

While deciding about the capital structure, the constitution of the company plays an important role. In case of private limited company, the control factor, attitude of management, stability of earnings plays more important role as the companies may not be able to have more borrowed capital in its capital structure because they carry more risk. Write fine Products Pvt. Ltd. Companies product demand is stable or constant because brand image or customer is loyal for the products. Rather than long term loan they take readily available finances for short term payments in form of term loan from cash credit limit financing (C.C. Limit Facilities) banks and local lenders. That’s why use in to the stability of earning in to the symbolic is e < 1.

LITERATURE REVIEW

Dewaelheyns & Hulle (2009) Argue That In Private Sector Companies The Capital Structure Of The Firms Is Not Driven Only By The Internal Financing But The External Financing too Have An Impact On The capital structure. Although The Private Firms Have Limited Access To Debt Financing But Still They Continue To Expand In Many Parts Of The World Because They Follow Pecking Order Theory (Mayers 1984), Which Suggests That Firms Prefer Internal Financing Until Their Funds Are Sufficient To Meet Their Needs.

Mand and Manjit,(2014), in their papers "An empirical investigation in to the determinates of capital structure" found that the profitability is influenced by age of firm , firm size and debt payment capacity not even by the degree of leverage.

Paul & Chakroborty, (2014) in their paper **"** Impact of capital structure on firms' profitability", explored that the relationship of debt /equity ratio with profit to sales ratio, ROI have the associations with internal factors such as policy of firm. A low coast finance plays equally important role.

RESEARCH OBJECTIVES

(1) The main aim of this research paper is to find out capital structure effects due to change in organization structure, and their effects on the profitability, solvency and liquidity of organization. Intellectually challenging through structured approach of research. To see the long term effect the data is taken for 10 years so that a uniformity can be maintained.

(2)Analyzing the financial health and functioning of Write fine Company before and after partnership.

(3)To find out the correlation between financial performances of partnership firm as well as private limited company.

RESEARCH DESIGN

Population Size – 1, Sample Size – 1, Statistical description – N= n =1

Type of research – descriptive research, single sample research

Period of the study: 10 years. 5 years as partnership firm and 5 years as private limited company. *** 3 years of registered firm and 2 years of unregistered form they were hesitating in providing data of partnership firm older than 3 years.

Type of data- Secondary data. It is collected from their audited financial statements.

Data source- audited financial statement provided by company. Some data was disclosed telephonically as it was confidential.

Nature of data- The data is of "time series in nature". As only one organization unit with 10 numbers of years. From financial year 2006-07 to 2015-16.

Research tool and techniques - ratio's to check profitability, solvency and overall efficiency of organization.

Statistical tool- Correlation and regression analysis. F-test calculated is done to see the effect of change in organization type.

Software used for research – MS-Excel and SPSS are used to carry result of this resear

HYPOTHESIS SEGMENTS

type of ratio segment	name of ratio adopted for hypothesis
liquidity ratios	current, quick and cash ratios
profitability ratios	net profit ratio, eps, equity ratio
solvency ratios	debt ratio, debt-equity ratio, properitory ratio, return on total assets, fixed assets to equity ratio
activity ratios	fixed assets turnover ratio,capital turnover ratio,

Current Ratio

Ho: Variances of current ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of current ratio are not equal in partnership firm and private limited for write fine.

Quick Ratio

Ho: Variances of quick ratio improved in partnership firm and in private limited for writefine.

H1: Variances of quick ratio are not equal in partnership firm and private limited for writefine.

Cash Ratio

Ho: Variances of cash ratio are increasing at equal in partnership firm and in private limited for WRITEFINE.

H1: Variances of cash ratio are not equal in partnership firm and private limited for writefine.

Proprietary Ratio:

Ho: Variances of proprietary ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of proprietary ratio are not equal in partnership firm and private limited for writefine.

Fixed Assets Turnover Ratio:

Ho: Variances of fixed assets turnover ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of fixed assets turnover ratio are not equal in partnership firm and private limited for writefine.

Capital Turnover Ratio

Ho: Variances of capital turnover ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of capital turnover ratio are not equal in partnership firm and private limited for writefine.

Current Assets to Fixed Assets Ratio

Ho: Variances of current assets to fixed assets ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of current assets to fixed assets ratio are not equal in partnership firm and private limited for writefine.

Net Profit Ratio

Ho: Variances of net profit ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of net profit ratio are not equal in partnership firm and private limited for writefine.

Earnings per Share

Ho: Variances of earning per share are equal in partnership firm and in private limited for write fine.

H1: Variances of earning per share are not equal in partnership firm and private limited for writefine.

Equity Ratio

Ho: Variances of equity ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of equity ratio are not equal in partnership firm and private limited for writefine.

Debt Ratio

Ho: Variances of debt ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of debt ratio are not equal in partnership firm and private limited for writefine.

Debt Equity Ratio

Ho: Variances of debt equity ratio are equal in partnership firm and in private limited for writefine.

H1: Variances of debt equity ratio are not equal in partnership firm and private limited for WRITEFINE.

Fixed Assets Ratio

Ho: Variances of fixed assets ratio are equal in partnership firm and in private limited for WRITEFINE.

H1: Variances of debt fixed assets ratio are not equal in partnership firm and private limited for WRITEFINE.

TEST: t-test

Level of significances 5% in MS excel

Earnings per share = Net profit after tax / Number of Equity shares. The ratio further increased and reached to 716.6

FINDINGS

1. The current ratio is increasing at a very high speed. Which shows that company's cash holding capacity is very high in comparison of partnership firm? Similarly the quick ratio is also increasing. In fact the quick ratio is higher than the normal rate. So the null hypothesis is rejected that change in organization type adversely affects the liquidity.
2. The proprietary ratio and fixed assets to equity ratio are complementary to each other. A significant change in its enhancement, which shows a very positive result for the companies who would like to change its format.
3. Among the profitability ratios, net profit ratio is surprisingly reduced after conversion of firm. It is steady. Means company is facing tough competition in domestic and international market .but return on total assets has shown a growth trend after registration. Nearly one and half times increase in terms of ratios.
4. The most important ratio analysis i.e. debt ratio is showing a negative trend with reference to total capital employed. Whereas debt equity ratio is showing a negative trend too. The ratio is reduced to, 68 from the identical of 2.1 in previous years. Which shows solvency ratios are not maintained properly.
5. Fixed assets turnover ratio have much relevance for effective utilization of assets, there is a remarkable change in this ratio. It has increased 3 times which is sign of high effective usage. On the other hand, fixed assets to equity ratio is decreased significantly.
6. Capital turnover ratio is showing a positive but steadily growing trend which is basically a positive sign for the enterprise.
7. There is no significant direct co relation with change in enterprise type.

CONCLUSION

If we deeply analyze this case study, it breaks many myths. General perception is that the change in organization type hits the efficiency adversely. But here we found that there are some ratios like liquidity, efficiency are really improved after change in organization form liquidity reason is that the current liabilities are reduced against current assets which may be even due to change in their credit policy. Equity ratio is a good indicator of leverages, but private company is having restrictions on issue to shares to other parties. So they have to increase loan component rather than equity content. It affects the profitability with relevance to PAT. Internal control is one of the major key content in this regard. Write fine is an example for all the enterprise who are afraid of changing their organization type, that rather than the type the management and policies matters the most. New enterprise type can enhance your liquidity, profitability, leverage and solvency overall. There is no harm in changing form of enterprise if it gives a boost to your business.

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