Financial Statement Analysis Of M.P. State Civil Supplies Corporation Ltd - A Case Study

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Abstract - India is a nation, which is self-sufficient in food production, but still, approximately 350 million people living below poverty line and starvation is one of the main problems of the country. The primary objective of this research paper is to analyze the financial performance of M.P. State Civil supplies corporation Ltd. The corporation is engaged in public distribution system to procure food grains to the poor and extremely poor people. The research work shows that the profitability of the corporation during the recent years is very low. Tools applied to evaluate the general profitability of the corporation are ratio analysis such as Gross margin ratio, Net margin ratio, operating ratio, expenses ratio and operating profit ratio and overall profitability such as return on proprietor's fund have been implemented. The short- term solvency position of the corporation has been evaluated by analysing and interpreting current ratio, liquidity ratio, absolute liquid ratio and stock turnover ratio. The hypothesis of the study has been tested by using multiple regression analysis technique.

Keywords - MP State, Civil Supplies, Finance.

I. INTRODUCTION

India is an agricultural country, in which two thirds of the working Population is dependent on agriculture for their livelihoods. Madhya Pradesh is known as heart of the country. In real sense, it is primarily an agricultural state. The economy of Madhya Pradesh is largely based on its mixed agriculture and about 73% population of the state is rural, which is either directly or indirectly depends on the agriculture. The main crops of Madhya Pradesh are rice, paddy, wheat, pulses gram linseed, ramtil, jowar, soyabean etc.

The Madhya Pradesh State Civil Supplies Corporation Ltd is a state government undertaking which was incorporated on 3rd April 1974, (under section 617 of the Companies' Act 1956) and the registered office of the corporation is situated in Madhya Pradesh (Bhopal). The corporation is spread over the entire Madhya Pradesh, & has 7 regional offices & 51 District offices. The M.P.S.C.S.C. is bridging the gap between the farmers and mandies. It thus has good institutional link to the mandies , co-operative societies, farmers, food grain trading divisions and fair price shops spanning all over M.P. The corporation is engaged in food grain procurement under public distribution scheme. Under public distribution system the corporation procures and moves almost 1and half million tonnes of wheat, paddy, coarse grains, kerosene, sugar, iodised salt and pulses by its strong distribution network every year. The corporation acquires wheat, paddy and cores grains from farmers at minimum support price (fixed by the government from time to time) and sends paddy to private miller for milling, the millers deposits the paddy after milling to Food Corporation of India. The corporation is also linked with M.P. state warehousing corporation ltd, to store the crops and grains in its warehouses. The FCI collects the food grains and sends it to FCI based depots from where it is subsequently sold to the link societies and ration shops or fair price shops. The M.P. state civil supplies corporation is running various schemes like chief minister's Annapurna yojna, antyodaya anna yojna(AAY scheme), kalyankari yojna, poshan aahar karyakram, jan kerosene yojna, mid-day meal scheme, APL scheme, BPL scheme and public distribution scheme successfully. Under these schemes the corporation covers poor people, extremely poor people and the people living in the tribal areas to procure food grains.

II. OBJECTIVES OF THE STUDY

- To analyze the concept of financial performance in respect of M.P.S.C.S.C Ltd.
- To analyze the profitability position of M.P.S.C.S.C Ltd.
- To analyze the short –term solvency of M.P.S.C.S.C Ltd.

III. HYPOTHESIS OF THE STUDY

H_{01}: There is no significant impact of sales on profit in M.P.S.C.S.C Ltd.

IV. RESEARCH DESIGN

The present research paper covers the five year's study period from 2009-10 to 2013-14. Ratio analysis technique has been used to complete the research work. The study is mainly based on secondary data, as to understand the problems and subject-matter of the research work, the researcher has collected and analyzed the data from annual reports, articles of association, other published documents and website of the corporation. Besides these data has also been compiled from the research journals, e-journals, various published research papers and various websites. The collected data has been classified and analyzed in a scientific and logical way to make conclusions and generalization.

V. LIMITATIONS OF THE STUDY

- The data collected is only for five years and this might not be true representation of the population. This is a major limitation of the research.
- This study is based upon secondary data, and the reliability of secondary data is based on auditing. So the limitations of secondary data are the limitations of the study.
- The scope of the study has become limited due to lack of time.

Table 1: Comparative statement indicating general & overall profitability ratios of MPSCSCL

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	Sd
Gross margin ratio	3.16	3.76	5.83	6.91	0.09	4.62	1.66
Net margin ratio	0.3	0.03	0.04	0.01	0.96	0.094	0.12
Operating ratio	102.93	96.24	114.76	116.62	117.23	109.56	9.45
Financial expenses ratio	4.79	7.61	8.35	9.29	13.17	8.64	3.05
Employee’s benefit expenses ratio	1.11	0.75	0.47	0.36	0.54	15.47	33.21
Operating profit ratio	2.75	4.61	14.65	16.56	17.15	11.14	6.91
Return on investment	6.55	0.91	2.22	1.12	6.73	3.51	2.9

(Source: annual reports of M.P state civil supplies corporation ltd.)

VI. INTERPRETATION

The gross margin ratio of a firm shows the degree to which selling price per unit of goods may decline without resulting in losses on operations. In the financial year 2009-10 the gross margin ratio is 3.16% which is lowest during the study period and right in the next year it was improved with 3.76%. Again in the consecutive two financial years i.e. 2011-12 & 2012-13 it rose up to 5.83% and 6.91% respectively, which is highest during the five year period. In the current financial year again it has dropped to 3.44%. The ratio is showing highly fluctuated trend during the study period. The average gross margin ratio is indicated 4.62%.

$$\textit{Gross margin ratio} = \frac{\textit{Gross Margin}}{\textit{Net Revenue}} \times 100$$

The net margin ratio of a firm is an indicator of efficiency of the management in operating activities of the firm. The above table is showing decreasing trend of the net profit of the corporation from the financial year 2009-10 to 2012-13, In the current financial year the ratio of net profit to net sales has improved by 0.95%. At last we can conclude that the corporation hasn’t maintained its operating cost because it is bearing higher interest rate burden on bank loans for improving financial system of the corporation. In the above period the expenditures are more increased in proportion to the income.

$$\textit{Net margin ratio} = \frac{\textit{Net Margin}}{\textit{Net Revenue}} \times 100$$

Operating ratio of firm shows operating expenses on one rupee of sales. The operating ratio of the corporation is 102.93% in the financial year 2009-10, which was decreased to 96.24%in the next financial year. The table is showing increasing trend of this ratio from the financial year 2011-12 to 2013-14 i.e. 114.76%, 116.62 & 117.23% respectively. The average operating ratio is109.56% indicated.

$$\textit{Operating ratio} = \frac{(\textit{Operating Expenses} + \textit{Cost of Sales})}{\textit{Net Revenue}} \times 100$$

The expenses ratios are calculated to see the causes of variation in the operating ratio. The operating expenses of the corporation comprises of financial expenses and employees benefit expenses. Both financial expenses and employees benefit expenses ratios are showing highly fluctuated trend with an average of 8.64% &15.67% respectively.

$$Financial\ expenses\ ratio = \frac{Financial\ \ Expenses}{Net\ Revenues} \times 100$$

$$Employees\ benefit\ expenses\ ratio = \frac{Employee\ \ Benefit\ \ Expenses}{Net\ Revenues} \times 100$$

Operating profit ratio measures the relationship between operating profit & net sales. generally it is represented in percentage. The operating profit ratio of the corporation showed highly fluctuated trend during the study period with an average of 11.44%. The ratio is highest in the financial year 2013-14 (17.15%) and lowest in 2009-10 (2.75%).

$$Operating\ profit\ ratio = \frac{Net\ Operating\ \ Profit}{Net\ Revenues} \times 100$$

Return on shareholder's investment (also known as ROI), is one of the most important ratios measured to examine the overall profitability of a firm. The above table shows lowest ROI in the year of 2011, and highest in the 2014 i.e. 6.73% with an average of 3.51%. The ratio of net profit to proprietor's fund displayed highly fluctuated trend during the study period.

$$Return\ on\ proprietor's\ investment = \frac{Net\ profit\ after\ interest\ \&\ taxes}{Proprieto\ r'sfund} \times 100$$

Proprietor's Fund = Equity Share Capital + Preference Share Capital +Reserve & Surplus

Table 2: Comparative statement indicating Short-term solvency ratios of MPSCSCL

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	Mean	Sd
Current ratio	3.73	2.61	2.00	1.18	0.61	2.03	1.22
Liquidity ratio	0.63	0.92	0.64	0.41	0.27	0.57	0.25
Absolute liquid ratio	0.63	0.71	0.03	0.02	0.00	0.28	0.36
Working capital turnover ratio	2.06	1.89	2.80	10.24	1.66	3.07	4.37
Inventory turnover ratio	0.97	0.96	1.06	1.07	1.03	1.02	0.05

(Source: annual reports of M.P state civil supplies corporation ltd.)

INTERPRETATION

Current ratio is a very important ratio to measure the short-term solvency of the firm. It tells about the company's ability to pay its short-term obligations in time as and when they become due. The accepted standard of current ratio is 2:1. In the financial year 2009-10 the current ratio of the corporation is 3.73:1, and it continuously went down during the whole study period to 2.61:1, 2:1, 1.18:1, and 0.61:1 respectively. The above table shows slightly fluctuated trend of current ratio with an average of 2.03. The current ratio of the corporation is not satisfactory in the year 2013-14 because it is much below than the standard ratio.

$$Current\ ratio = \frac{Current\ /Floating\ \ Assets}{Current\ \ Liabilities}$$

The liquidity ratio is the relationship between the liquid assets and the current liabilities. This ratio is also known as quick ratio and acid test ratio. The accepted standard for this ratio is considered as 1:1. The liquidity ratio of the corporation is 0.63:1 in the year 2009-10 and it rose up to 0.92:1 in the next financial year and it again dropped down to 0.64:1 in the financial year 2011-12. In the financial year 2012-13 and 2013-14 the ratio of liquid assets to current liabilities is shown 0.41:1 and 0.27:1 respectively. The average ratio for the whole study period is 0.57. The corporation has not maintained standard liquidity ratio during the whole study period, hence it is not satisfactory.

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

Liquid Assets = Current Assets – (Stock + Prepaid Expenses)

Absolute liquid ratio is measured to find out the proportion of absolute liquid assets as compared to liquid liabilities in a firm. This ratio is also known as super quick ratio. Generally 0.5:1 is considered as the standard ratio. The above table shows highly fluctuated trend with an average of 0.28. The table shows the absolute liquid ratio 0.63:1 in the year 2009-10 and it rose up to 0.71:1 in the next financial year, then it continuously went down during the last three years to 0.02:1, 0.03:1 and 0 respectively, hence this ratio is found not satisfactory in these years.

$$Absolute\ Liquid\ Ratio = \frac{Absolute\ \ Liquid\ \ Assets}{Liquid\ \ liabilities}$$

$$Absolute\ Liquid\ Ratio = Cash\ in\ hand + Cash\ at\ bank + marketable\ Securities$$

The working capital turnover ratio is the velocity of circulation of net working capital. This ratio tells that how efficiently the working capital being used by a firm. The working capital turnover ratio of the corporation is shown 2.06 times in the year of 2010 and it went down in the next financial year to1.89 times. In the year of 2011-12 it rose up to 2.80 times. In the year of 2012-13 it was 10.24 times which is found to be highest during the study period. Again in the financial year 2013-14 it went down to 1.66 times. The table shows highly fluctuated trend with an average of 3.07. The velocity of utilisation of working capital is found to be satisfactory.

$$Working\ Capital\ turnover\ ratio = \frac{Cost\ of\ Sales}{Net\ Working\ Capital}$$

Net Working Capital = Current /Floating Assets- Current Liabilities

The stock turnover ratio shows that how efficiently the firm is using its inventory. It is also called inventory turnover ratio and stock velocity ratio. The stock turnover ratio in the financial year 2009-10 showed 0.97 times and it is almost equivalent in the year of 2010-11 i.e. 0.96 times. It rose up to 1.06 times in the year of 2011-12 and again in the next financial year it was 1.07 times. In the year of 2013-14 the ratio is 1.03 times, with an average of 1.02 times. There is not significant fluctuation seen in this ratio hence it is satisfactory.

$$Stock\ Turnover\ Ratio = \frac{Cost\ of\ Sales}{Average\ Stock}$$

$$Average\ stock = \frac{Opening\ Stock + Closing\ Stock}{2}$$

TESTING OF HYPOTHESIS

H_{01}: There is no significant impact of sales on profit in M.P.S.C.S.C Ltd.

Table 3: Determining the values of multiple regression

Particulars	values
Coefficient of correlation (r)	0.55
coefficient of determination (r^2)	0.31
F- value (P -value)	1.33 (0.33)
T- value (P -value)	1.15 (0.33)

(Source: annual reports of M.P state civil supplies corporation ltd.)

INTERPRETATION

To test the above mentioned hypothesis the multiple regression technique has been implemented. The table no. 3 displays the calculated values. The table shows that there is negative moderate degree correlation between the sales and the net profit i.e. 0.55 and coefficient of determination 0.31 infers that net profit is 30% dependent on the net sales.

T-TEST

The calculated value is 1.15 and critical value at 5% level of significance and 4 degree of freedom is 2.77

Therefore, t_{cal} 1.15 < t_{tab} 2.77

Hence the null hypothesis is accepted that there is no significant impact of sales on profit of Madhya Pradesh State Civil Supplies Corporation Ltd.

VII. SUMMARY OF FINDINGS

- The gross margin and net margin ratios are very low which are reducing the profitability of the corporation, as the it is suffering from higher interest rate burden on bank loans. One more conclusion can be drawn in this regard that the expenditures are more increased in proportion to the income.
- The operating ratio is very high during the five year period, but on analysing the individual expenses ratio it was found that the proportion of these expenses is very low in the overall operating ratio, hence the ratio is satisfactory.
- It can be conclude that the corporation is earning an average return on investment 3.51%, this ratio is not satisfactory.

- The short-term solvency ratio infers that the corporation hasn't maintained the proper ratio of liquid assets to the liquid liabilities during the whole study period, and the absolute liquid ratio is unsatisfactory in the last three years.
- The stock turnover ratio is not very high it reveals that the off take of food grains is not performing properly and the process of procurement& transportation of food grains very slow.
- The corporation is not maintaining its working capital turnover properly.

VIII. SUGGESTIONS

- The corporation should pay off bank loans as early as possible so that the burden of interest could be reduced.
- The cost of sales of the corporation should also be reduced to increase its profitability.
- The corporation should keep adequate proportion of liquid and absolute liquid assets in the total current assets, to maintain proper liquidity in the firm.
- The company is working for vulnerable section so it should increase its return on investment.
- The company should maintain proper sources of off take of food grains so that turnover of stock could be improved.
- The corporation should utilise its working capital in properly and efficiently so that the turnover of working capital could be improved.

IX. CONCLUSION

On the basis of the study the major conclusion can be drawn that the Madhya Pradesh State Civil supplies corporation Ltd is a state Government enterprise, with 100 percent shareholding of the state Government. The central government sanctions the aid to the corporation for its working. The corporation has maintained its current assets in proportion to current liabilities which is good sign to judge its liquidity. The corporation running various public welfare schemes successfully, for this purpose it has taken bank loans and paying higher interest rate on the loans. The interest on loan is affecting the corporation's profitability adversely. So the corporation should dispose off the loan as early as possible to improve profitability.

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