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A STUDY ON FINANCIAL HEALTH OF DHAMPUR SUGAR MILLS LTD, UTTAR PRADESH**A. ROJAMMAL****RESEARCH SCHOLAR****M. R. GOVERNMENT ARTS COLLEGE
MANNARGUDI****DR. S. BABU****ASST. PROFESSOR****M. R. GOVERNMENT ARTS COLLEGE
MANNARGUDI****ABSTRACT**

Finance is more important to the business as the circulation of blood which is necessary for human body. Literally speaking, finance is the provision of adequate money when it is required. That is finance is needed for a business to promote, conduct and achieve the goal of organisation. For every company finance is much important right from the beginning that is conceiving an idea to obtain the organisational goals. Thus finance is very essential for the smooth running and survivability of the business. The main aim of financial analysis is better understanding of firm's position and performance. It refers to the process of determining financial strength and weakness of the firm by establishing strategic relationship between the items of balance sheet and profit and loss account. To evaluate the financial conditions and performance of a company, the financial analysis needs certain yardsticks. Ratio analysis is a widely used tool, which is relevant in assessing the performance of a firm in respect of liquidity position, long term, and solvency. In addition to this, it helps to predict the financial distress of the business. An attempt has been made in the present study to have an insight into the examination of financial health of the organization by using z score model.

KEYWORDS

Altman's Z score model, financial health, financial soundness and distress, ratios.

INTRODUCTION

Financial health is a term used to describe the state of one's personal financial situation. There are many dimensions to financial health, including the amount of savings you have, how much you are setting away for retirement and how much of your income you are spending on fixed or non-discretionary expenses. It is difficult to infer organizational performance from one or two simple numbers. Nevertheless, in practice a number of different ratios are often calculated in strategic planning endeavors and, taken as a whole and with some caution, these ratios do provide some information about the relative performance of an organization. In particular, a careful analysis of a combination of these ratios may help you to distinguish between firms that will eventually fail and those that will continue to survive. Evidence suggests that, as early as five years before a firm fail, one may be able to detect trouble from the value of these financial ratios.

REVIEW OF LITERATURE

1. TS Devaraja (2009) – This is indeed an excellent research work: perhaps the first record of detailed financial performance of sugar industries in Karnataka that covers several aspects of sugar production, problems and prospects of sugar industries in the state. This study provides a comprehensive analysis of trends of the sugar production and financial performance of sugar firms set up in the public, cooperative and private sectors. The author has made genuine efforts to examine the financial performance of the sugar industry starting from the firm level to the state and national levels. The study also covers the current policy and policy options for improvement of the industry in Karnataka.
2. Dr. Vijay H. Vyas. (2015), Studied on financial health of oil and gas industry in India. The study has been made through using financial ratios and Altman's Z Score model. The Study found that all the sampled companies are financially sound.
3. Dr. A Muthusamy and Muthumeena (2015), Studied financial performance of Selected Private Airlines in India, the study has been used various ratios, mean, standard deviation, coefficient of variance, ANOVA, Correlation and 't'- Test. The study concluded that jet airways and spice jet airways have higher profitability when compared to other selected airlines in India.

NEED FOR THE STUDY

The most important aim of financial analysis is better understanding of firm's position and performance. This study is conducted to assess the financial health and viability of the company.

STATEMENT OF THE PROBLEM

The key objective of business enterprises is to earn profit. Profit making is considered essential for the survival and withstanding of the business. Business needs profit not only for its existence but also for expansion and diversification. To monitor the financial health of a company is not easy task today. It is necessary to benchmark the efficiency of utilisation of capital and assets, return to shareholders as well as predicting financial distress. Hence this study is conducted to evaluate the financial health of the company.

OBJECTIVES OF THE STUDY

1. To assess the financial health of Dhampur sugar Mills Ltd.
2. To predict the financial soundness of Dhampur sugar mills Ltd.

RESEARCH METHODOLOGY

The study was concerned with Dhampur Sugar Mills Ltd. The study was on the secondary data, which was obtained from the published sources for a period of 5 years from; 2011 to 2015. The collected data was analyzed with the help of ratio analysis and also the Z score analysis has been adopted to monitor financial health of the company to predict as well as to avoid business failure and subsequent bankruptcy.

PROFILE OF THE COMPANY

Dhampur Sugar Mills Ltd Ltd has been continuously striving to maximize the potential of sugarcane and this focused and continuous effort has resulted in Dhampur becoming one of India's leading integrated sugarcane processing companies, with a turnover of Rs. 17950.5 Million (year ending Mar 2015). In 1933, the company started with a production capacity of 300 TCD. Today the Dhampur Group has a combined capacity of 39,500 TCD. Company also operates captive power plant of 125 MV capacities.

PERIOD OF THE STUDY

The analysis is done for the period of 5 years starting from 1st April 2011 to 31st March 2015.

SCOPE OF THE STUDY

The study is conducted to evaluate the financial position of the company. The performance of Dhampur Sugar Mills Ltd is judged by its financial statements, which throws light on the financial position of the company. The topic selected for a study is on financial health using Altman’s Z score model from the financial year 2011-2015.

RESULTS AND DISCUSSION

The prime objective of financial statement analysis is to spotlight the managerial performance, corporate efficiency, strength and weakness and credit worthiness that would have otherwise seen hidden in confusion of detail.

MEASURING FINANCIAL HEALTH THROUGH RATIO ANALYSIS:

Ratio analysis is a widely used tool of financial analysis, with the help of the ratio analysis can know the strengths and weakness of a firm, as well as its performance and current financial position. It provides a clear picture of the financial soundness of a business ratio analysis is typically used to measure liquidity, leverage, activity, profitability and growth. no single ratio calculation can provide a meaningful complete picture of a company’s financial position. Keeping the above point in mind, this study uses ‘Z’ score model, which captures the predictive viability of a company’s financial health by using a combination of financial ratios that ultimately predicts score, which are used to determine the financial health of a company.

‘Z’ SCORE MODEL

Edward I, Altman, a financial economist at New York University’s Graduate School of Business, developed a model for predicting the likelihood that a company would go bankrupt. This model uses five financial ratios that combine in a specific way to produce a single number. This number, called the Z= score, is a general measure of corporate financial health. The most famous failure prediction model is Altman’s Z-Score Model. Based on Multiple Discriminate Analysis (MDA), the model predicts a company’s financial health based on a discriminate function of the firm.

$$Z = 1.2 X1 + 1.4 X2 + 3.3 X3 + 0.6 X4 + 1.0 X5$$

Where:

Z = Discriminate function score of a firm

X1= Working Capital / total assets

X2= Retained earnings / total sales

X3= Earnings before interest and taxes / total assets

X4= Market value of equity / book value of total liabilities or reciprocal of debt- equity ratio,

X5=Sales / total assets.

The Z – score model (developed in 1968) was based on a sample composed of 66 manufacturing companies’ with 33 companies in each of two matched pair groups. Altman subsequently developed a revised Z – score model (with revised co –efficient and Z- score cut – offs) which dropped variables X\$ and X5 (above) and replaced them with a new variable X4= net worth (book value) / total liabilities. The X5 variables were allegedly dropped to minimize potential industry effects related to assets turnover.

ALTMAN’S GUIDELINES FOR HEALTHY ZONE

With the help of Altman guidelines, the financial health can be measured.

Altman Guidelines

Situation Z SCORE Zones Remarks

I	Below 1.8	Not Healthy Its failure is certain and extremely likely and would occur probably within a period of two years.
II	Between 1.8 and 2.99	Healthy Financial viability is considered healthy. The failure in this situation is uncertain to predict.
III	3.0 and above	Too healthy Its financial health is viable and there is no risk of a fail.

TABLE NO. 1: ‘Z’ SCORE INGREDIENTS

Ingredients Financial ratios	2015-16	2014-15	2013-14	2012-13	2011-12	Mean
X1 Working capital /Total assets	0.323875	0.212725	0.38114	0.246637	0.189126	0.270701
X2 Retained earnings / total sales	0.189835	0.199767	0.263454	0.265094	0.185118	0.220654
X3 EBIT / total assets	0.080814	0.082757	-0.16426	0.151266	0.182402	0.066596
X4 Value equity/total Debt	0.040112	0.047333	0.041627	0.061321	0.069829	0.52045
X5 Sales/total assets	0.97892	1.099607	0.859261	1.167134	1.879847	1.196954

Source: (annual reports of Dhampur Sugar Mills Ltd)

TABLE NO. 2: VALUE OF ‘Z’ SCORE

Ingredients Financial ratios	2015-16	2014-15	2013-14	2012-13	2011-12	Mean
X1: Working capital /Total assets	0.388651	0.25527	0.457367	0.295964	0.226951	0.324841
X2: Retained earnings / total sales	0.265769	0.279674	0.368835	0.371132	0.259165	0.308915
X3: EBIT / total assets	0.266688	0.273098	-0.54206	0.499177	0.601926	0.219766
X4: Value equity/total Debt	0.024067	0.0284	0.024976	0.036793	0.041897	0.031227
X5: Sales/total assets	0.97892	1.099607	0.859261	1.167134	1.879847	1.196954
Z SCORE	1.924094	1.936049	1.168382	2.3702	3.009787	2.081702

Source: (annual reports of Dhampur Sugar Mills Ltd.)

INTERPRETATION

This table reveals the ‘Z’ score value of Dhampur Sugar Mills Ltd. It shows that the ‘Z’ score value is highest in the year 2011-2012 as 3.0098 and is lowest in the year 2013-2014 as 1.168382. This indicates that the company is healthy.

FINDINGS OF THE STUDY

1. The working capital management of Dhampur Sugar Mills Ltd was above the satisfactory level.
2. Retained earnings to total sales ratios are fluctuating throughout the study period. The firm with low retained earnings to total assets have financed their assets through retention of profits and have utilized as much debt.
3. The debt equity ratio shows a fluctuating trend in the following years. It shows the long term solvency of a firm.

4. Sales to total asset ratio indicates a positive position in the following years. It shows that the companies have the capacity to increase their sales over periods.
5. With the help of 'Z' score model the financial health of Dhampur Sugar Mills Ltd is measured as healthy and the failure in this situation is uncertain to predict.

SUGGESTIONS

Dhampur Sugar Mills Ltd., are satisfactory and Z score are in decreasing trend for the years from 2013-14 to 2015-16. So, the organization should concentrate on financial soundness and long term solvency of the organization. If they concentrate, then they can easily predict the failure and it will be overcome in the future.

SCOPE FOR FUTURE RESEARCH

This Study Gives an idea about using Altman's Z Score model for assessing Financial Health and it gives various areas to concentrate like Liquidity, Profitability, Working Capital Management, Capital Structure and Financial Soundness.

CONCLUSION

The financial healthiness of Dhampur Sugar Mills Ltd seems to be satisfactory. The firm should take corrective measure to increase the financial performance. On the basis of ratio analysis and 'Z' SCORE MODEL, the researcher can have concluded that the company is healthy and is financially viable and the failure in this situation is uncertain to predict.

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ANNEXURE

BALANCE SHEET OF DHAMPUR SUGAR MILLS

	----- in Rs. Cr. -----				
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
	12 mths	12 mths	12 mths	12 mths	12 mths
Sources of Funds					
Total Share Capital	75.96	80.41	83.36	62.81	62.81
Equity Share Capital	58.78	57.28	53.98	53.98	53.98
Share Application Money	1.24	2.48	0	0	0
Preference Share Capital	17.18	23.13	29.38	8.83	8.83
Reserves	352.1	363.99	403.84	422.52	446.11
Networth	429.3	446.88	487.2	485.33	508.92
Secured Loans	1,421.78	1,158.29	1,273.41	857.58	697.11
Unsecured Loans	43.63	51.85	23.33	22.7	75.92
Total Debt	1,465.41	1,210.14	1,296.74	880.28	773.03
Total Liabilities	1,894.71	1,657.02	1,783.94	1,365.61	1,281.95
Application of Funds					
Gross Block	1,952.10	1,726.22	1,642.74	1,446.76	1,371.52
Less: Accum. Depreciation	700.36	640.27	569.73	461.78	395.22
Net Block	1,251.74	1,085.95	1,073.01	984.98	976.3
Capital Work in Progress	17.74	207.03	19.42	34.83	17.74
Investments	11.58	11.55	11.58	8.99	45.46
Inventories	1,252.26	1,224.34	1,311.26	710.23	666.85
Sundry Debtors	221.69	110.25	144.06	216.27	85.22
Cash and Bank Balance	13.96	14.93	12.87	13.21	22.77
Total Current Assets	1,487.91	1,349.52	1,468.19	939.71	774.84
Loans and Advances	263.09	76.3	84.69	75.33	109.69
Total CA, Loans & Advances	1,751.00	1,425.82	1,552.88	1,015.04	884.53
Current Liabilities	1,106.69	1,042.96	829.06	645	611.31
Provisions	30.66	30.37	43.89	33.23	30.77
Total CL & Provisions	1,137.35	1,073.33	872.95	678.23	642.08
Net Current Assets	613.65	352.49	679.93	336.81	242.45
Total Assets	1,894.71	1,657.02	1,783.94	1,365.61	1,281.95
Contingent Liabilities	331.45	148.22	47.79	2.9	0.76
Book Value (Rs)	69.98	73.63	84.93	88.39	92.77

Balance Sheet of Dhampur Sugar Mills

	----- in Rs. Cr. -----				
	Mar '15 12 mths	Mar '14 12 mths	Mar '13 12 mths	Mar '12 12 mths	Mar '11 12 mths
Income					
Sales Turnover	1,854.77	1,822.07	1,532.87	1,593.85	2,409.87
Excise Duty	65.82	0	51.65	57.56	72.27
Net Sales	1,788.95	1,822.07	1,481.22	1,536.29	2,337.60
Other Income	6.1	6.59	7.39	4.52	26.16
Stock Adjustments	-19.93	-69.63	0	39.68	456.36
Total Income	1,775.12	1,759.03	1,488.61	1,580.49	2,820.12
Expenditure					
Raw Materials	1,408.26	1,395.93	1,519.10	1,203.84	2,307.48
Power & Fuel Cost	3.73	5.54	58.87	4.21	4.14
Employee Cost	74.33	72.7	71.1	58.96	93.08
Miscellaneous Expenses	135.68	147.73	132.57	106.91	181.59
Total Expenses	1,622.00	1,621.90	1,781.64	1,373.92	2,586.29
	Mar '15	Mar '14	Mar '13	Mar '12	Mar '11
	12 mths	12 mths	12 mths	12 mths	12 mths
Operating Profit	147.02	130.54	-300.42	202.05	207.67
PBDIT	153.12	137.13	-293.03	206.57	233.83
Interest	149.66	142.21	112.67	94.87	127.24
PBDT	3.46	-5.08	-405.7	111.7	106.59
Depreciation	55.15	75.88	76.76	67.66	96.17
Profit Before Tax	-51.69	-80.96	-482.46	44.04	10.42
PBT (Post Extra-ord Items)	-51.69	-80.96	-482.46	44.04	10.42
Tax	-41.33	-5.59	16.54	15.5	1.74
Reported Net Profit	-10.36	-75.37	22.76	28.54	8.68
Total Value Addition	213.74	225.97	262.54	170.08	278.81
Preference Dividend	0	0.26	1.74	0.3	0.44
Equity Dividend	0	0	7.15	6.74	5.39
Corporate Dividend Tax	0	0.04	1.51	1.14	0.95
Per share data (annualised)					
Shares in issue (lakhs)	587.15	572.15	539.06	539.06	539.06
Earning Per Share (Rs)	-1.76	-13.22	3.9	5.24	1.53
Equity Dividend (%)	0	12.5	12.5	10	
Book Value (Rs)	69.98	73.63	84.93	88.39	92.77

Source: Dion Global Solutions Limited

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