

A Study on Financial Performance of Uralungal Labour Contract Co-Operative Society (Ulccs) Ltd

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Abstract

This study analyses the financial performance of Uralungal Labour Contract Co-operative society (ULCCS) Ltd for a period of the last five financial years starting from 2014-15 to 2018-19. The study analysed performance the ULCCS by profitability, liquidity, solvency, and capital structure. Financial ratio analysis and trend analysis have been used to cross the source data and could establish that the financial performance of the society was satisfactory. Some important suggestions are made to orient the organisational goals

Key Words: Ratios, Profitability, Liquidity, Solvency, Trend Analysis, Ulccs

1. Introduction

Business organisations need funds for its promotion, acquiring of fixed assets and to carry out their day to day operations. The procurement of material, labour and such other related expenses require huge amount of money, called working capital. Financial performance of a company is highly related to the controlling of working capital or playing with liquidity. An Effective working capital management system makes every business to improve their earning capacity and profitability.

Uralungal labour contract co-operative society (ULCCS) ltd. is established in the year 1925 and registered under co-operative societies act. With the age of 94 years and healthy survival, the society has proven a giant position in the history of loyal and efficient constructors in south India. The Financial performance of ULCCS can be well assessed on the basis of profitability ratios, liquidity ratios, solvency ratios and trend analysis within five years of 2015 to 2019

2. Review of Literature

Princy Nk and sreelakshman have studied ULCC's working capital management for the years 2012 to 2016 and concluded the satisfied running of the ULCC Society.

Ganjanbankapure has studied about the liquidity, profitability and working capital scenario in different star hotels and concluded the significant role of working capital on liquidity and profitability.

Rajitha And chittibabu have studied on liquidity and profitability position of itlpvt ltd for the years 2010-2014 and concluded the power of operating performance and the slow rate of net working capital.

Ramana Reddy has studied liquidity and profitability in selected Indian software companies and could ascertain the negative relationship between liquidity and profitability

3. Methodology

Uralungal Labour Contracting Co-operative Society is one of major contractors in india. Their current financial situations are are to be analysed on the basis of profitability ratios ,liquidity ratios, solvency ratios and trend analysis. For this purpose primary data in the form of various years financial reports of 2015 to 2019 have been collected .Moreover Personal discussion with various financial officers have been conducted.

Profitability

Profitability ratio is used to evaluate the company's ability to generate income as compared to its expenses and other cost of generating incomes. Gross profit ratio, net profit ratio, and return on equity, are the major compartments of profitability index

Table-1

Analysis of Profitability of ULCCS Ltd.2015-2019						
No	Particulars	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
1	Cost Of Priced Contract	483422088	660000079	950267471	882021256	920613652
2	Gross profit	540801622	711436371	843587664	844836268	1462904936
3	Net profit	6224813	8255837	14783825	22021278	32292892
4	Sales	347020534	442209120	438659332	510493921	556167557
5	Total effected sales	1013504929	1360041767	1769843784	1680868015	2355141922
6	Equity Capital	268287905	243935915	220659255	947469055	1027887105
7	Gross profit Percentag	53.36	52.31	47.66	50.26	62.12
8	Net profit ratio	0.018	0.019	0.034	0.043	0.058
9	Return on Equity	0.023	0.034	0.067	0.023	0.031

The above table-1 shows the result of gross profit percentage, net profit ratio and return on equity together with such other revenue aspects. The amount of sales is added with trade income and profit and loss from sub contract to arrive at the value of effected sales. Gross profit ratio is satisfactory and the best as ranging from 48% to 63% and also driving up. The net profit ratio is not up to the mark because of the huge payments for interest on deposits and borrowings. Return on equity is also coming up
(Source: the annual audited report of ULCCS ltd.)

Liquidity

The ability of a company to meet and manage their current liabilities and obligations is called liquidity. Sound liquidity requires the availability of cash and other assets to cover accounts payable, short-term debt and such other sooner liabilities. A contracting company's liquidity may vary due to seasonality, timing of tender, and economy of the state. Some of the best known measures of a contracting company's liquidity are current ratio, quick ratio, working capital turnover ratio, and stock to current asset ratio

The analysis on liquidity status of the ULCCS as per (Table-2) shows that current ratio and quick ratio are highly satisfactory to meet the live flows and obligations. The

optimum current ratio for constructions is 2.5 maximum. With reference to working capital turnover ratio, the amount is moving down from the year 2017 and satisfies the required level. Regarding the stock ratio, very nominal amount is blocked on inventories. It is highly good as long as the current asset doesn't grow further

Table-2

Analysis on Liquidity of the ULCCS Ltd. For 2015-2019						
Sl.No	Particulars	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
1	Inventories with dead/deficit	9686469	8961707	21181825	21616897	23828869
2	Total Current Assets	3918882776	5713325070	6318557694	10473298459	14450336800
3	Total Current Liabilities	1354089605	1921298000	2195691862	3031024634	4502696899
4	Quick asset(c a – stock – other work)	3599042575	5402055337	5993050881	9799611138	13119365285
5	Sales (adjusted with direct profit/Loss,)	1013504929	1360041767	1769843784	1680868015	2355141922
6	Current Ratio	2.894	2.974	2.878	3.455	3.209
7	Quick Ratio	2.658	2.812	2.729	3.233	2.914
8	Working capital Turn over	0.29	0.28	0.3	0.2	0.19
9	Stock to current asset Ratio	0.0025	0.0016	0.0034	0.0021	0.0016

(Source: the annual audited report of ULCCS Ltd.)

Solvency

Solvency of a company is the debt paying ability over a long period of time .A Contracting Company is evaluated basically of their solvency for allotting works and providing long term loans from banks and public deposits. Some of the solvency indicators are debt to total asset ratio, debt equity ratio, financial leverage ratio, and proprietary ratios. These ratios measure a contracting society's ability to satisfy its long term obligations, due and safe growth. Here the ratios are analysed as : debt to total asset =total debt/total asset, proprietary ratio =total equity/total asset , and debt equity ratio =long term debt/total equity.

Table-3

Analysis on Solvency of ULCCS Ltd from 2015 to 2019						
Sl. No	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Deposits from members	3295429657	4906243375	5465209844	5969587634	7863329578
2	Borrowings from Govt./banks	1365921090	1191970625	1484934514	4872289280	7089967933
3	Total	4661350747	6098214000	6950144358	10841876914	14953297511
4	Paid up Capital	268287905	243935915	220659255	947469055	1027887105
5	Other funds/Reserves	305988923	379669341	474346642	606780340	766234555
6	Profit	6224813	8255837	14783825	22021278	32292892
7	Capital employed	580501641	631861093	709789722	1576270673	1826414552
8	Total B/s	6636748379	8694712291	9904903468	15502670223	21351015144
9	Debt to Total asset Ratio	0.702	0.701	0.702	0.699	0.7
10	Proprietary Ratio (equy ratio)	0.087	0.073	0.072	0.102	0.086
11	Debt Equity Ratio	8.03	9.651	9.792	6.878	8.187

The above table-3 shows the relation of long term debt to the total assets and to the capital employed. Average Debt asset ratio is 0.7 and average debt is 8 times to equity. For

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construction companies debt asset ratio could be allowed a maximum of 0.5 and the debt should be a maximum of 6 times to equity. But for ULCCS, as a co-operative construction society, no threats can be marked. As per the proprietary ratio, the portion of owner's funds to the total assets should have to be increased further
(Source: The annual audited report of ULCCS Ltd.)

Trend analysis

Trend analysis is a financial statement analysis technique that shows changes in the amounts of various financial statement items over a period of time. The general trend of the organisation can be understood easily. Both revenue and capital elements of ULCCS ltd for a period of five years are entered in the table below.

Table-4

Base year 2015		Trend Analysis of ULCC Ltd 2015-19				
S.No	Particulars	31-03-2015	31-03-2016	31-03-2017	31-03-2018	31-03-2019
1	Cost Of Priced Contract/CGS	100	137	197	182	190
2	Stock in trade	100	93	219	223	246
3	Sales	100	127	126	147	160
4	Total effected Sales	100	144	159	239	339
5	Gross profit	100	132	156	156	271
6	Net profit	100	133	237	354	519
7	Interest payable	100	164	251	262	303
8	Current Liabilities	100	141	156	224	340
9	Current assets	100	151	164	270	368
10	Ave.Working cap	100	111	128	155	203
11	Fixed mov.Assets	100	118	144	189	247
12	Fixed immov.Assets	100	121	134	167	222
13	Paid up Capital	100	91	82	353	383

(Source: The annual audited report of ULCCS Ltd.)

The above table reveals the trend of 7 revenue aspects and 6 capital aspects over four years starting from 2016 as based to the year 2015. All the trends s are found positive and proportionate excepting “interest payable” and “current assets”. A slight pulling back is urged to these aspects. Generally the trend is most satisfactory.

4. Limitations of the study

1. ULCCS Ltd. Is a co-operative contracting society which follows good ethics and social responsibility to more than 15000 human beings and workers internally, and to the whole society externally?
2. Major Portion of the indirect costs are allocated to the needs and welfare of its members
3. Financial statements are scheduled to satisfy the accounting practices, which may not be more effective to a co-operative contracting society.

5. Conclusion

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Analysis of financial statement of any business organisation involves the crossing of profitability, liquidity, solvency, trends and working capital. Here the study is conducted by taking five year's audited financial reports. Regarding profitability, gross profit ratio is most appreciative .The Net profit ratio is insufficient to satisfy the return on equity capital because of the higher payments towards interest on borrowings and deposits. With regard to liquidity position, current ratio and quick ratio are found very satisfactory. Working capital is found inflated due to the delayed payments from bills. Amount blocked with inventories are comparatively very less and find best storing . Regarding solvency position, there is a wide gap of 8 times between borrowed capital and equity capital. The society can take tiger steps to limit borrowed capital for reducing interest payments and also to compel for sooner bill payments from the parties and government

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