

CHAPTER III

CAPITAL STRUCTURE ANALYSIS OF SOUTH INDIAN ENTERPRISES

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The South Indian Enterprises (SIE) are known to be conservative in their approach to management. The SIE have ability, but it is often said that they don't know how to use the ability skilfully. The southerners are missing the easily available business opportunities because of a distinct lack of drive. They cannot realise their full potential. The family holding of shares is another important feature of southerners and this curtails the total development of their business.

The SIE often face a take over tussle. They have little staying power and are not willing to fight to the end. The SIE always loses out if there are other contenders. They also have developed an inherent inability to deal with the Government.

Interestingly, one of the shrewdest mercantile communities in India are the Chettiars of the South. Long ago they migrated to Burma and to the far East and flourished as traders and money lenders. However, many of them suffered traumatic experiences when they were expelled from Burma. "When Burma hit us we didn't quite know how to recover".¹ says a Chettiar businessman, explaining why most of the Chettiars are ultra-conservative and cautious.

The South Indian Enterprises have higher amount of equity capital. The SIE have fear to use debt in their capital structure. They use very little amount of debt with equity in their capital structure. The myth prevailed that the South Indian Enterprises had higher earnings per share and of book value per share. The southerners were ploughing back more amount of profits as retained earnings. They also declared lower rate of dividend to their shareholders. The South Indian Enterprises had also maintained low dividend yield and pay out ratio.

As stated in the first Chapter, the study was undertaken to verify the above general beliefs about the financial management of SIE. In this Chapter, a random sample of 100 SIE is analysed by looking at the selective indicators. The 100 sample units were drawn from the seven identified categories of industries as explained in the first Chapter. The seven categories of industrial enterprises are analysed individually in the following pages. The following abbreviations were used in this Chapter for the convenience of data presentation. TIER: Times Interest Earned Ratio; EPR: Earning Power Ratio; EPS: Earning per Share; ROCE: Return on Capital Employed; BVPS: Book Value per Share; PER: Price Earning Ratio; DYR: Dividend Yield Ratio; and POR: Pay Out Ratio.

South Indian Automobile Industry

Almost all major south Indian automobile enterprises (SIAI) were industrial pioneers. The sixties were their decade. The Enfield Motors and Standard Motors

dared to make automobiles from a tiny base. The automobile component industry concentrated largely in south India.

Out of a total of 9 automobile units in south India, 4 units were selected at random for the study. The selected units were, a. Enfield Motors Ltd., b. Mopeds India Ltd., c. Standard Motors Ltd., and d. TVS Suzuki Ltd.

Solvency Ratios of SIAI Table 3.1 presents the solvency ratios of the selected units.

Table 3.1

SIAI : Solvency Ratios

Amount in Rs.

Ratios/Year	1990	1991	1992	1993	1994	Average
Capital Gearing Ratio	0.22	0.19	0.39	0.15	0.21	0.23
Debt Equity Ratio	3.59	4.50	3.47	3.98	4.17	3.94
Ratio of Reserve to Equity Capital	0.85	0.65	0.65	0.68	0.65	0.70
Ratio of fixed assets to long term debt	0.92	0.75	0.76	0.78	0.80	0.80

The sample units of SIAI had recorded high capital gearing ratios during the study period. The capital gearing ratio was the lowest in the year 1993 (0.15)

and the highest in the year 1992 (0.39) On an average the study units employed an equity of 23 paise for every one rupee of debt capital.

These units had also recorded high debt equity ratio during the study period. In fact, among all the groups studied, SIAI alone had recorded high degree of capital gearing and debt equity ratio. During the five year period of study the debt equity ratio of SIAI varied from Rs.3.59 to Rs.4.50. The average of debt equity ratio during the study units in SIAI had been very low during the five years of study. It ranged from Re. 0.65 to Re. 0.85. The average of this ratio worked out to be Re. 0.70. The fixed assets created for every rupee of long term debt employed by the sample units of SIAI were also very low and varied from Re. 0.75 to Re. 0.92 registering an average of Re. 0.80.

Profitability Ratios of SIAI The profitability ratios of SIAI are presented in Table 3.2.

Table 3.2**SIAI : Profitability Ratios**

Ratios/Year	1990	1991	1992	1993	1994	Average
1. TIER	-0.15	-0.30	-0.95	-0.42	-0.15	-0.39
2. EPR	-15	-1	-2	-2	-6	-5.2
3. EPS	-17.12	-8.02	-6.62	-7.77	-8.03	-9.51
4. ROCE	-8	-3	---	-5	-6	-4.4
5. BVPS	18.57	15.00	16.60	20.34	15.41	17.18
6. PER	-.72	-6.88	-7.15	-6.91	-5.55	-5.44
7. DYR	---	---	---	---	---	---
8. POR	---	---	---	---	---	---

Table 3.2 gives the important profitability ratios on the financial performance of SIAI. During the study period the SIAI was not working profitably. The return on capital employed during the period was negative with an average return of -4.4 per cent. The earnings per share was also negative registering a minimum of Rs.-6.62 in the year 1992 and maximum of Rs.-17.12 in the year 1990. The average earnings per share of the study units was -9.51 during the study period. The earning power ratio which correlates with the operating profit and fixed asset was not also in favour of SIAI. The average of earning power ratio during the study period was -5.2 per cent. During the period of study the SIAI registered negative price earning ratio and times interest earned

ratio. The average of price earning ratio was -5.44 times and the average of times interest earned ratio was -0.39 times. However the book value per share of SIAI was above the face value during the study period. It ranged from a low of Rs.15 to a high of Rs.20.34. The sample units did not declare dividend and hence dividend yield ratio and payout ratio could not be calculated. It so happened that out of the four random samples selected from the SIAI, three were loss making and were in chronic stage of finance. Because of this, the profitability ratios and solvency ratios were not favourable to the sample units of SIAI.

South Indian Cement Industry

In 1994, India achieved the distinction of becoming the fourth largest cement producer in the world. The cement industry witnessed a spectacular rise in capacity and structural changes leading to total decontrol in 1989 throughout the country. Another phenomenon noticed was the substantial increase in the production capacity of individual plants. The installed capacity recorded a quantum jump from 25.7 million tonnes in 1980 to 72.90 million tonnes in 1994. The change in the capacity of SICI during the same period was from 8.92 million tonnes to 22.14 million tonnes.² The South Indian Cement Industry met 32 per cent of the total demand. A sample of 6 units were selected at random from a total of 13 SICI units. These sample units produced 40.17 lakh tonnes of cement per annum.

Solvency Ratios of SICI Table 3.3 shows the solvency ratios of SICI.

Table 3.3

SICI : Solvency Ratios

(Amount in Rs.)

Ratios/Year	1990	1991	1992	1993	1994	Average
Capital Gearing Ratio	2.56	2.45	12.59	14.89	16.29	9.75
Debt equity Ratio	3.52	1.88	1.43	1.33	0.60	1.75
Ratio of Reserve to Equity Capital	2.68	5.19	7.56	6.60	5.47	5.50
Ratio of Fixed assets to long term debt	3.69	4.13	7.85	9.87	11.19	7.35

The capital gearing ratio of SICI was increasing year after year during the study period. It started at Rs.2.56 in 1990 and was increased to a high Rs.16.29 in the year 1994. On an average every rupee of debt in SICI had an equity of Rs.9.75. In contrast the debt equity ratio of SICI registered a continuous fall during the study period from Rs.3.52 in 1990 to 60 paise in the year 1994. The average of debt equity ratio worked out to be Rs.1.75. However the ratio of reserve to equity capital was fluctuating within a range of Rs. 2.68 in the year 1990 to Rs.7.56 in 1992. During the study period the sample units of SICI had Rs.5.50 as reserve for every rupee of equity. The fixed asset installed by SICI for

every rupee of long term debt were increasing year after year from Rs.3.69 in the year 1990 to Rs.11.19 in the year 1994. The average ratio of fixed assets to long term debt was Rs.7.35. On the whole, the solvency ratios indicate that the SICI was conservative in its financial management during the study period.

Profitability Ratio of SICI The profitability ratios of SICI are presented in Table 3.4.

Table 3.4

SICI : Profitability Ratios

Ratios/Year	1990	1991	1992	1993	1994	Average
1. TIER	3.37	2.63	3.11	2.80	2.84	2.95
2. EPR	18.1	18	19	15	15	17.02
3. EPS	2.88	12.62	138.84	56.98	56.34	53.53
4. ROCE	13	25	28	21	21	21.6
5. BVPS	143.63	229.25	364.57	219.13	288.25	248.97
6. PER	1.78	3.35	7.08	9.34	10.31	6.37
7. DYR	3.37	2.63	3.11	2.80	2.84	2.95
8. POR	22.25	19.94	17.02	25.58	27.71	22.50

The year 1992 seems to be the most satisfactory year for SICI. Because all the indicators were raising upto this year and start decreasing after this. Earning power ratio was increasing upto 1992 but stabilised at 15 per cent

afterwards. Similarly the earnings per share and return on capital employed were also increasing upto the year 1992 but decreasing afterwards. The book value registered an increase from Rs.143.63 to Rs.288.25. The price earning ratio and pay out ratio reflected the earnings per share and return on capital employed throughout the study period. The dividend yield had also been fluctuating from 2.63 per cent to 3.37 per cent. The pay out ratio was moderate considering the earnings per share registered.

South Indian Chemical Industry

The share of chemical Industry in the national output was estimated to have risen from a mere 8 per cent in 1970-71 to about 40 per cent in 1992-93. The country had become self sufficient in almost all major chemicals². The South Indian Chemical Industry (SICHI) contributed about 30 per cent of the total chemical production in India. The SICHI had been financially sound, had fair earnings per share and book value, declared regular dividend to share holders.

Solvency Ratios of SICHI Table 3.5 gives the solvency ratios with respect to SICHI.

Table 3.5**SIChI : Solvency ratios**

Amount in Rs.

Ratios/Year	1990	1991	1992	1993	1994	Average
Capital Gearing Ratio	2.01	1.82	0.61	0.50	0.55	1.10
Debt equity Ratio	2.03	2.37	2.00	1.39	1.10	1.78
Ratio of Reserve to Equity Capital	1.59	2.07	2.09	2.35	3.02	2.22
Ratio of Fixed assets to long term debt	1.31	1.28	0.93	0.82	0.88	1.04

As per Table 3.5 every one rupee of debt in SIChI had an average equity of Rs.1.10. It was Rs.2.01 in 1990 but decreased to 55 paise in 1994. The SIChI reduced equity by Rs.1.51 for every one rupee of debt during the period of study. The Debt equity ratio shows that every one rupee of equity in SIChI had a debt of Rs.2.03 in the year 1990 which was decreased to Rs.1.10 in 1994 making an average of Rs.1.78. The debt component in the capital structure was decreased by Rs.1.27 for every rupee of equity between 1991 and 1994. Table 3.5 shows that every one rupee of equity in SIChI was supported by a reserve of Rs.1.59 in 1990. The reserve amount was doubled from Rs.1.59 in 1990 to Rs.3.02 in 1994, working out an average of Rs.2.22. The SIChI's ratio of fixed assets to long term debt exhibits that every rupee of debt was backed by fixed

asset of Rs.1.31 in 1990. But the fixed asset backing was decreased to 88 paise in 1994. The continuous reduction in this ratio shows that the SICHl had been using long term debt capital to augment its working capital.

Profitability Ratios of SICHl Table 3.6 presents some important profitability ratios of SICHl.

Table 3.6

SICHl : Profitability Ratios

Ratios/Year	1990	1991	1992	1993	1994	Average
1. TIER	2.81	4.82	13.91	1.66	2.04	5.05
2. EPR	16	14	17	15	19	16.2
3. EPS	4.34	3.12	4.70	3.67	8.68	4.90
4. ROCE	17	15	14	15	18	15.8
5. BVPS	25.57	20.81	33.47	36.41	42.49	31.75
6. PER	9.76	53.65	55.37	10.84	14.66	28.86
7. DYR	3.66	2.76	3.37	2.91	4.42	3.42
8. POR	23.61	22.18	49.44	27.11	15.64	27.60

The earning per share of SICHl decreased by Rs.1.22 from 1990 to 1991 and increased by Rs.1.58 in the next year. However it decreased by nearly one rupee in the subsequent year. As years went by the EPS reached its zenith of Rs.8.68 in 1994. The earnings available to equity share holders changed due to

fluctuation of earnings from 1990 to 1994. The earning power of every hundred rupees of assets in SICHI was Rs.16 in 1990. The earning power of SICHI increased by 5 per cent from 1991 to 1994. The average earning power of the industry was 16.2 per cent during the study period. The return on capital employed in SICHI decreased by 2 per cent from 1990 to 1991 and increased by 3 per cent afterwards. That the companies maintained their efficiency in maintaining the return on capital more or less between 14 and 18 per cent from 1990 to 1994 shows their stability in this regard. The book value per share which was Rs.25.57 in 1990, was increasing year after year (except 1991) and ended in Rs.42.49 in the year 1994, making an average of Rs.31.75. Table 3.6 also show's every share in SICHI yielded a dividend of 3.66 per cent in 1990, which decreased to 2.76 per cent in 1991. It increased to 3.37 per cent in 1992. After a decrease in 1993 it ended with 4.42 per cent in 1994. However, the degree of such fluctuation was not very prominent.

The pay out ratio of SICHI was 23.61 per cent in 1990 which decreased to 22.18 per cent in 1991. It increased to 49.44 per cent in 1992 and decreased to 15.64 per cent in 1994. The average pay out ratio during the study period was 27.60 per cent. The SICHI maintained its payout ratio more or less uniformly in 1990, 1991 and 1993. A 100 per cent increase of pay out ratio was witnessed in 1992. In general, the year 1992 proved to be the most prosperous for the share holders and investors in SICHI.

South Indian Engineering Industry

The Indian engineering industry produces products worth over Rs.623 billion. It accounts for over 31 per cent of the total engineering output of the country. This sector of the industry employs over 2.4 million people. At present investment in the engineering industry is estimated at over Rs.389 billion. The South Indian Engineering Enterprise (SIEI) produces industrial machinery, textile machinery, screw compressor units, foundry machines and chemical and pharmaceutical machinery. The engineering goods produced in south India have good market throughout the country and the world. A sample of 24 units had been selected for the present study out of 50 units in SIEI.

Solvency Ratios of SIEI Selected Solvency Ratios in respect of SIEI are exhibited in Table 3.7.

Table 3.7**SIEI : Solvency Ratios**

Amount in Rs.

Ratios/Year	1990	1991	1992	1993	1994	Average
Capital Gearing Ratio	0.90	0.75	2.49	2.08	1.95	1.63
Debt equity Ratio	1.94	1.81	1.98	1.89	1.91	1.91
Ratio of Reserve to Equity Capital	2.17	2.82	3.07	3.14	3.45	2.93
Ratio of Fixed assets to long term debt	1.12	1.04	2.50	1.91	2.27	1.77

Table 3.7 shows that every one rupee of debt in SIEI had an equity of 90 paise in 1990 which decreased to 75 paise in 1991. During the subsequent two years the capital gearing ratio increased and ended at Rs.1.95 during 1994, making an average of Rs.1.63. The debt equity ratio of this group of companies was stabilised around Rs.1.91 which was the average debt equity ratio during the period. The SIEI had been appropriating higher allocations to reserve during the study period. The allocations were steadily increasing year after year. The average reserve was Rs.2.93 for every rupee of equity. Every one rupee of debt in SIEI had a fixed asset of Rs.1.12 in 1990 which fluctuated over the study period and settled at Rs.2.27 in 1994. That the debt holders had good security in SIEI was

evident from the fact that the SIEI maintained an average of Rs.1.77 worth fixed assets for every rupee of long term debt. On the whole it could be said that the SIEI followed a conservative policy of financial management.

Profitability Ratios of SIEI The profitability ratios concerning SIEI are given in Table 3.8.

Table 3.8

SIEI : Profitability Ratios

Ratios/Year	1990	1991	1992	1993	1994	Average
1. TBER	4.43	4.44	4.82	6.13	8.94	5.75
2. EPR	28	25	27	26	28	26.80
3. EPS	11.87	15.23	21.60	24.47	25.87	19.81
4. ROCE	29	28	32	38	34	38.20
5. BVPS	52.28	65.49	80.28	99.02	122.30	83.87
6. PER	43.36	20.09	21.25	10.88	12.30	21.58
7. DYR	2.64	2.28	1.85	1.74	2.47	2.20
8. POR	84.04	34.88	30.71	24.23	24.90	39.75

Table 3.8 shows that earnings per share was Rs.11.87 in 1990 which increased considerably to Rs.25.87 in 1994. The average EPS was Rs.19.81. The EPS increased by Rs.14 per share from 1990 to 1994. It was increasing steadily year after year. The earnings available to equity share holders increased

every year proving the investment to be highly profitable. The earning power of SIEI was 28 per cent in 1990 which was the same 28 per cent in 1994, fluctuating mildly in between. The average earning power ratio recorded by SIEI during the study period was 26.80 per cent. The return on capital employed was between 28 per cent and 68 per cent from 1990 to 1994. It increased by 4 per cent from 1991 to 1992 and shot up by 36 per cent from 1992 to 1993. It decreased by 34 per cent from 1993 to 1994. The investors got a good amount of return to their fund from 1990 to 1994 especially in 1993. The average return on capital employed was 38.20 per cent. The book value per share was Rs.52.28 in 1990. It increased to Rs.65.49 in 1991 and to Rs.80.28 in 1992. It further increased to Rs.99.02 in 1993 and to Rs.122.30 in 1994. The steady increase in the book value is profitable and beneficial to investors and it shows the stability of the industry. The book value per share was Rs.83.87 on an average during the study period. The SIEI had an increasing trend of book value per share from 1990 to 1994. It increased by Rs.70 per share from 1990 to 1994, that is nearly 140 per cent, promising good benefits to shareholders and investors. The shareholders' wealth had been increasing year by year. The price earning ratio of this group of sample had been decreasing during the five year of the present study. The ratio in the beginning was 43.36 times and at the end 12.30 times making an average of 21.58 times. The continuous fall of this ratio might be due to fall in the stock prices in India after the scam. The times interest earned ratio had been continuously increasing during the study period. It started at 4.43

times in 1990 and ended at 8.94 times in 1994, making an average of 5.75 times. This shows that the group was in good financial health which was also reflected on EPS. The dividend yield ratio of SIEI's was 2.64 per cent in 1990 which decreased to 1.74 per cent in 1993. It increased to 2.47 per cent in 1994 from 1993. The average dividend yield was 2.20 per cent. It shows that the investors in SIEI received a fair amount of dividend from 1990 to 1994. The payout ratio of SIEI was 84.04 per cent in 1990 which decreased to 34.88 per cent in 1991. It further decreased to 24.90 per cent in 1994 from 34.88 per cent in 1991. In every aspect, the investment in SIEI proved to be profitable to the shareholders and investors in 1991 and thereafter. The investors could have gained remarkably before 1990 but might have been disappointed thereafter if they had been expecting the same kind of payout.

South Indian Paper Industry

Ever since the first paper mill was set up at Serampore in West Bengal way back in 1832, the paper industry has travelled a long distance. In 1994 there are over 350 paper mills in the country producing 2.4 million tonnes of different kinds of paper and boards.⁵ A total of 8 units existed in South India during 1990; out of which 4 units were selected at random for the purpose of the study.

Solvency Ratios of SIPI The selected solvency ratios concerning South Indian Paper Industries (SIPI) are presented in Table 3.9.

Table 3.9**SIPI : Solvency Ratios**

Amount in Rs.

Ratios/Year	1990	1991	1992	1993	1994	Average
Capital Gearing Ratio	1.13	0.84	1.08	1.64	2.24	1.39
Debt equity Ratio	1.27	1.51	1.13	0.69	0.46	1.01
Ratio of Reserve to Equity Capital	1.73	2.57	3.30	3.27	3.77	2.93
Ratio of Fixed assets to long term debt	1.83	1.55	1.73	2.19	2.76	2.01

The fact that the SIPI had been conservative in respect of its financial management is better reflected in the solvency ratios. The capital gearing ratio which indicates the quantum of equity employed for every rupee of debt, had been increasing from Rs.1.13 in the year 1990 to Rs.2.24 in 1994, working out an average of Rs.1.39. The debt equity ratio which shows the quantum of debt employed in relation to the equity, had been decreasing from Rs.1.27 to Rs.0.46, making an average of Rs.1.01. These two ratios show that the SIPI preferred a higher proportion of equity rather than debt. Similarly the value of fixed assets built up in relation to the debt employed had been increasing year after year from Rs.1.83 in 1990 to Rs.2.76 in 1994. Every rupee of debt had been supported by fixed assets of Rs.2.01, on an average, during the study period. The earnings

retained in the business in relation to equity had also been increasing over the study period. It was only Rs.1.73 in the year 1990 but increased to Rs.3.77 in the year 1994. All this clearly show that the SIPI had been practicing a conservative policy of financial management during the study period.

Profitability Ratios of SIPI The profitability ratios in relation to SIPI are given in Table 3.10.

Table 3.10

SIPI : Profitability Ratios

Ratios/Year	1990	1991	1992	1993	1994	Average
1. TIER	3.07	2.81	1.67	2.52	1.67	2.35
2. EPR	42	38	31	27	12	30
3. EPS	12.08	9.81	4.81	5.41	6.82	7.79
4. ROCE	23	24	17	32	26	24.40
5. BVPS	28.03	36.43	43.78	42.76	28.13	35.83
6. PER	42.28	41.65	43.20	175.08	75.08	75.46
7. DYR	1.44	1.52	1.93	2.31	2.61	1.96
8. POR	8.26	26.08	75.82	48.32	45.56	40.81

The earning per share of SIPI was Rs.12.08 in 1990 which decreased to Rs.4.81 in 1992. However it increased to Rs.6.82 in 1994. The sharp decline in 1991 and further decline in 1992 were far more prominent when compared

to the gradual but slow progress during 1993 and 1994. The earning power of SIPI in 1990 was 42 per cent and was decreased to 12 per cent in 1994. The earning power of SIPI was decreased by 30 per cent in aggregate during the study period. The average earning power was 30 per cent. The SIPI had a return of 23 per cent on the capital employed in 1990 which was almost the same in 1991 and suddenly decreased to 17 per cent in 1992. It increased to 32 per cent in 1993 but in the next year decreased to 26 per cent. The average return on capital was 24.40 per cent during the study period. The book value per share of SIPI was fluctuating every year during the study period. The range of fluctuation was Rs.28.03 and Rs.43.78. Similarly the price earning ratio was also fluctuating though it was stable during the initial years. Another ratio which was fluctuating was times interest earned ratio. This ratio varied from 3.07 times to 1.67 times. In spite of this variation, the ratio was favourable to the sample units. The dividend yield from SIPI was 1.4 per cent in 1990 which increased to 2.61 per cent in 1994. The average of dividend yield ratio was 1.96 per cent during the study period. The pay out ratio of SIPI was 8.26 per cent in 1990. It increased to 75.82 per cent in 1992, but decreased to 45.56 per cent in 1994. The SIPI distributed 40 per cent of its earnings on an average during the study period.

South Indian Sugar Industry

The South Indian Sugar Industry (SISI) has been existing for a long time and has been a traditional industry. Many of the most efficient and successful sugar mills are located in South India. At the time of taking up the present study there were 18 companies in the SISI, out of which 9 companies were selected at random for the purpose of the study. The selected units had a crushing capacity of 31,000 lakh tonnes of cane per day and were producing 37 per cent of total sugar production in the country.

Solvency Ratios of SISI The solvency ratios pertaining to the sample units in SISI are presented in Table 3.11.

Table 3.11

SISI : Solvency Ratios

Amount in Rs.

Ratios/Year	1990	1991	1992	1993	1994	Average
Capital Gearing Ratio	1.14	0.84	0.54	0.67	0.84	0.81
Debt equity Ratio	1.38	1.33	1.72	2.32	2.14	1.78
Ratio of Reserve to Equity Capital	4.42	6.06	7.71	7.60	9.04	6.97
Ratio of Fixed assets to long term debt	1.21	0.86	0.74	0.68	0.76	0.85

The capital gearing ratio of SISI was initially declining but started to increase from the year 1993 onwards. This means that the proportion of equity by the industry in relation to the debt capital has been kept at a lower level. This has shown the desire of the industry to make leverage benefits. The five year average of the proportion of equity in relation to debt capital was Re.0.81. The tendency for making leverage benefits is also reflected in debt equity of SISI. The debt equity ratio had been increasing year after year during the study period. It started at Rs.1.38 in the year 1990 and ended at Rs.2.14 in the year 1994, making an average of Rs.1.78 debt capital for every rupee of equity. The increasing debt component in the capital structure is also evident from the fixed assets to long term debt ratio which had been decreasing over the five years of the study. This ratio was Rs.1.21 in the first year and was 76 paise in the year 1994. The reason for decreasing fixed assets to long term debt ratio might be due to the practice of the sugar industry in India (including SISI) to sell and lease-back their plant and machinery. All these three ratios indicate that the SISI is no more conservative and has become dynamic with respect to the financial management. The ratio of reserve to equity capital had been in an increasing trend during the study period. It started at Rs.4.42 in the year 1990 and ended at Rs.9.04 in the year 1994 making an average of Rs.6.97.

Profitability Ratios of SISI The profitability ratios in relation to SISI are presented in Table 3.12.

Table 3.12**SISI : Profitability Ratios**

Ratios/Year	1990	1991	1992	1993	1994	Average
1. TIER	5.64	3.71	2.33	2.12	2.41	3.24
2. EPR	23	18	10	48	32	26.2
3. EPS	10.07	4.59	5.79	8.09	11.85	8.08
4. ROCE	33	29	16	28	17	24.60
5. BVPS	54.15	69.54	95.20	86.05	108.45	82.68
6. PER	9.35	10.21	23.66	11.28	18.86	14.67
7. DYR	4.13	3.34	3.65	4.02	3.52	3.73
8. POR	26.53	51.50	36.51	40.77	32.41	37.54

The EPS of the SISI was in an increasing trend though there was a set back in the year 1991. From Rs.4.59 in 1991, the EPS went upto Rs.11.85 registering an increase by Rs.7.26. The average EPS during the study period was Rs.8.08. The earning power of the assets of SISI was highly fluctuating during the study period. The range of fluctuation was from 10 per cent to 48 per cent with the five year average of 26.2 per cent. The wide fluctuations in the sugar price during the study period might be the reason for the fluctuating earning power of SISI. Similar to the earning power, the return on capital employed was also fluctuating with a range of 16 per cent to 33 per cent. However the times interest earned ratio shows that SISI has been in a good position, so far as serving the debt was concerned. The average times interest earned ratio during

the period of study was 3.24 times. That the SISI had been declaring a sumptuous rate of dividend over the study period was evident from the fact of higher payout ratio registered during the study period. Similarly the dividend yield ratio was also satisfactory with an average of 3.73 per cent. The book value per share had been in an increasing trend during the study period. During the first year of the study the book value per share was Rs.54.15 and was Rs.108.45 in 1994 registering a 100 per cent increase.

South Indian Textile Industry

The Indian textile industry had been very important to the nation's economy. This is the single largest industry in the country as it accounts for 20 to 25 per cent in the total industrial production. It employs about 20 million people and earns as much as 27 per cent of the country's total export earnings⁵. The South Indian Textile Industry (SITI) accounts for 35 per cent of the country's textile production.⁶ Lakshmi Textiles, Premier Mills are some of the famous textile units in south India. The study has taken 29 units from out of 61 SITI units for the purpose of analysis.

Solvency Ratios of SITI The capital structure of SITI is analysed with the help of the solvency ratios exhibited in Table 3.13.

Table 3.13**SITI : Solvency Ratios**

Amount in Rs.

Ratios/Year	1990	1991	1992	1993	1994	Average
Capital Gearing Ratio	0.82	0.87	0.78	0.73	1.04	0.85
Debt equity Ratio	1.24	1.36	1.56	1.59	1.23	1.40
Ratio of Reserve to Equity Capital	6.12	7.94	6.93	8.84	12.27	8.42
Ratio of Fixed assets to long term debt	1.52	1.30	1.33	1.21	1.42	1.36

During the period of study SITI could not established any particular trend in capital gearing ratio. The capital gearing ratio of SITI ranged between 82 paise to Rs.1.04 with five year average of 85 paise. On the contrary the debt equity ratio had been maintained at a particular level with lesser fluctuations. The average of debt equity ratio in SITI was Rs.1.40 during the period of study. It could be said, on the basis of these two ratios, that SITI has been using a higher proportion of debt in relation to equity in its capital structure. Ratio of reserve to equity capital of SITI had been increasing every year except 1992. It started at Rs.6.12 and nearly doubled during 1994 (Rs.12.27). Just like capital gearing ratio the SITI could not maintain any trend in fixed assets to long term debt ratio. It recorded marginal fluctuation in the range of Rs.1.21 and Rs.1.52. The SITI had largely been managed by a few members of the promoters' family who are

known to be conservatives, and hence the solvency ratios relating to fixed assets to longterm debt and reserve to equity reflect that conservatism. At the same time, the SITI had also used a higher proportion of debt in relation to equity thereby giving indication, that they are dynamic.

Profitability Ratios of SITI The profitability ratios reflecting other aspects of financial management by SITI are exhibited in Table 3.14.

Table 3.14

SITI : Profitability Ratios

Ratios/Year	1990	1991	1992	1993	1994	Average
1. TIER	5.11	4.90	4.21	3.38	4.61	4.44
2. EPR	55	47	36	27	31	39.20
3. EPS	79.18	63.02	35.98	14.90	33.72	45.36
4. ROCE	30	25	21	21	27	24.80
5. BVPS	182.96	195.68	193.02	223.95	246.82	208.49
6. PER	2.98	6.58	9.26	8.56	14.67	8.41
7. DYR	7.71	7.67	7.94	6.22	8.17	7.54
8. POR	30.30	28.27	44.34	55.56	45.99	40.89

The earning power ratio and times interest earned ratio of SITI registered a marginal increase in the last year of observation. However the averages of earning power ratio (39.2) and times interest earned ratio (4.44) were favourable

to industry during the study period. Similarly the EPS and return on capital employed were also in a decreasing trend during the study period, except the return on capital employed which registered a sharp increase in the last year of study. Going by the averages of EPS and return on capital employed, which worked out to be Rs.45.36 and 24.8 per cent respectively, it can be said that the financial management of SITI was efficient during the study period; perhaps this has resulted in an increasing book value per share of SITI. The book value per share was Rs.182.96 in the year 1990 and was increased to Rs.246.82 during the last year of the study. Though the book value per share was increasing over the study period, the dividend yield ratio and pay out ratio of SITI were fluctuating.

The dividend yield ratio varied from 6.22 per cent to 8.17 per cent. The range of variation in payout ratio had been 28.27 per cent and 55.56 per cent. However the averages of dividend yield ratio and pay out ratio (7.54 and 40.89 respectively) show that the SITI was declaring dividends at highly satisfactory rates.

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