



# A Study on Capital Structure and Financial Performance Analysis of Coir Industry

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## I. INTRODUCTION OF THE STUDY

It is considered to be the backbone for the development of modern economy and human civilization. The level of consumption of considered as a vital index to measure the socio-economic development and standard of life of people of the country.

Capital structure analysis is a periodic evaluation of all components of the debt financing and equity financing used by a business. The intent of the analysis is to evaluate what combination of debt and equity the business should have.

The paper's structure is studying the Gordon growth model first and then the weighted average cost of capital formula. After that, we exam the relationship between

a corporation's market value and its ways to finance its real investments and identify an arbitrage opportunity finally, this paper investigates the relationship between a company's profit and its combinations of capital structures.

### What is Financial Performance Analysis?

Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes a full diagnosis of the profitability and financial soundness of the business. The financial analyst program provides vital methodologies of financial analysis.

Here are some of the things financial performance analysis looks at:

**Working capital:** It is the difference between the companies' current assets and liabilities. **Financial structure:** It is the mix of equity and other portfolios offered by the company. **Analyzing activities:** It analyses business functions like costing, pricing, accounting, etc. **Significance of Financial Performance Measurement**

The interest of various related groups is affected by the financial performance of a firm. The type of analysis varies according to the specific interest of the party Involved:

**Trade creditors:** interested in the liquidity of the firm (appraisal of firm's liquidity)

**Bond holders:** interested in the cash-flow ability of the firm (appraisal of firm's capital structure, the major sources and uses of funds, profitability over time, and projection of future profitability)

**Investors:** interested in present and expected future earnings as well as stability of these earnings (appraisal of firm's profitability and financial condition)

**Management:** interested in internal control, better financial condition and better performance (appraisal of firm's present financial condition, evaluation of opportunities in relation to this current position, return on investment provided by various assets of the company etc.)

### Importance of Capital Structure:

Decisions relating to financing the assets of a firm are very crucial in every business and the finance manager is often caught in the dilemma of what the optimum proportion of debt and equity should be. As a general rule there should be a proper mix of debt and equity capital in financing the firm's assets.

### FACTORS DETERMINING CAPITAL STRUCTURE

The following factors are considered while deciding the capital structure of the firm. Capital structure is the proportion of all types of capital viz. equity, debt, preference etc. It is synonymously used as **financial leverage** or financing mix. Capital structure is also referred as the degree of debts in the financing or capital of a business firm. It is believed that with the change in capital structure, the value of a firm can be influenced. There are four approaches to this, viz. **net income, net operating income, traditional** approach.

### Leverage

It is the basic and important factor, which affect the capital structure. It uses the fixed cost financing such as debt, equity and preference share capital. It is closely related to the overall cost of capital.



### Cost of Capital

Cost of capital constitutes the major part for deciding the capital structure of a firm. Normally long-term finance such as equity and debt consist of fixed cost while mobilization. When the cost of capital increases, value of the firm will also decrease. Hence the firm must take careful steps to reduce the cost of capital.

(a) **Nature of the business:** Use of fixed interest/dividend bearing finance depends upon the nature of the business. If the business consists of long period of operation, it will apply for equity than debt, and it will reduce the cost of capital.

(b) **Size of the company:** It also affects the capital structure of a firm. If the firm belongs to large scale, it can manage the financial requirements with the help of internal sources. But if it is small size, they will go for external finance. It consists of high cost of capital.

(c) **Legal requirements:** Legal requirements are also one of the considerations while dividing the capital structure of a firm. For example, banking companies are restricted to raise funds from some sources.

(d) **Requirement of investors:** In order to collect funds from different type of investors, it will be appropriate for the companies to issue different sources of securities.

### Government policy

Promoter contribution is fixed by the company Act. It restricts to mobilize large, long term funds from external sources. Hence the company must consider government policy regarding the capital structure.

### 1.1 STATEMENT OF THE STUDY

Financial analysis in terms of profitability, solvency and efficiency is considered as the backbone of any sector. The study of the financial performance is important to know the operating and financial efficiency of the business enterprise. This is main reason where many businesses do not understand the importance of break-even point and how it can be calculated. Survival of the business in the present competitive world depends on the quality production, technological development and financial analysis in the business. Therefore, the present study attempts to study the financial performance of the Coir industries.

### 1.2 OBJECTIVES OF THE STUDY

**Primary objective:** The article entitled “A Study on financial performance analysis of

PSG Coir Industry in Pollachi” has the following objectives;

#### Secondary objective:

- To study the growth of the Coir industries in the world and in India
- To interpret the financial position of the company of is appropriate and financial performance analysis level.
- To assess the long term financial viability of the company.
- To know whether the management is constantly concerned about the overall profitability of the company.
- To examine the short-term and long-term financial solvency, profitability and growth performance of the Coir industries in India

### 1.3 SCOPE OF THE STUDY

Study aims to analyse the liquidity, profitability, solvency position of the company and efficiency which it converts its resources into service. The study aims to find out the ratios between the services and net profit of the company. Liquidity ratio like current ratio, quick ratio etc. is prepared to analyse the financial performance of the company. Profitability of the company is found out using ratios like gross profit ratio, net profit ratio etc. The analysis of financial statements helped to judge the financial strength of the company. This study further gives valuable suggestions to the union to increase its performance by making a comparison with a company in the same industry. The study will help the company to know whether the performance creates value there by looking for the opportunities to increase the investment.

- Capital structure provides flexibility in raising funds. Companies like to issue debt because of the tax advantages. Interest payments are tax deductible.
- Debt also allows a company or business to retain ownership In equity financing, the entrepreneurs are able to make key strategic decisions and also to keep and reinvest more company profits.

### 1.4 LIMITATION OF THE STUDY

The report research may not clarifying extract details so, the period from five years.

- The study done using ratios may not provide an accurate values and financial position of the company. Approximate values are taken in the study.



- As the financial Performance are preparing on-going concern basis, it does not give exact position.
- The study covers only limited during that is five years only from 2017 to 2022 due to the limited time available for researcher.
- The conclusion should be not accuracy one because the research has variation for each and every year.

### 1.5 INDUSTRY PROFILE

Coir also called coconut fibre is a natural fibre extracted from the outer husk of coconut and used in products such as floor mats, doormats, brushes, and mattresses. Coir is the fibrous material found between the hard, internal shell and the outer coat of a coconut. Other uses of brown coir (made from ripe coconut) are in upholstery padding, sacking and horticulture.

White coir, harvested from unripe coconuts, is used for making finer brushes, string, rope and fishing nets. It has the advantage of not sinking, so can be used in long lengths in deep water without the added weight dragging down boats and buoys.

#### Agricultural and horticultural uses

In agriculture and horticulture, coir is used as an organic and decorative component in soil and potting mixes. Due to the increasing concern regarding the sustainability of producing sphagnum (peat moss) and peat from peat lands, usage of alternative substrates has been on the rise; the by-product coir is one commonly used substitute. Coir fibre pith or coir dust can hold large quantities of water, just like a sponge. It is used as a replacement for traditional peat in soil mixtures, or, as a soil-less substrate for plant cultivation. It has been called "coco peat" because it is to fresh coco fibre somewhat like what peat is to peat moss, although it is not true peat.

### 1.6 ABOUT THE COMPANY

#### WELCOME TO PSG COIR PRODUCTS

PSG Coir Products was founded by Mr Devaraj Padmanaban, initially started his business carrier in 2005, by purchasing the raw materials from the fibre Industries, Processing the raw materials by washing, drying and graded according to the customer requirements and outsourced to coco peat companies. The Technique of procurement, processing the raw materials & finally producing the quality

product was the knowledge transition given by the Dutch Company to our founder.

#### QUALITY & RELIABILITY

PSG coir's provide highest quality products to all our global customers by clearly identifying their requirements.

#### SKILLED WORKERS

All our employees are highly knowledge and will work hard to deliver quality products in a quick turnaround time.

#### SAFE SHIPMENT

Our experienced hands in the industry in logistics infrastructures for safe shipment provide between cost, speed and reliability.

#### Coir Disk and Coins Advantages:

- 100% organic and environmentally friendly
- It fits right to the nursery tray.
- It is easy to use.
- Rapid and denser rooting
- Excellent buffering properties
- Soak or add some water until the pressed disc expands to required volume.

## II. REVIEW OF LITERATURE

Nese Yalcined all (2017)<sup>1</sup> For Coir industries, financial performance evaluation is very important in a highly competitive environment. Therefore, an accurate and appropriate performance evaluation is critical. As financial performance indicators reflect the competitiveness of a company, they must be carefully identified in the evaluation process. Generally, traditional accounting-based financial performance (AFP) measures are used for performance evaluation. However, these measures are not sufficient for performance evaluation solely in the modern industry time.

Marimuthu (2018)<sup>2</sup>, in his study, "Financial performance of Coir industry: A study of listed company of Tamil Nadu" known as Manchester of South India. 76% of India's total Coir market is from Erode (Tex-City or Loom-City of India) and 56% of knitwear exports come from Tirupur. Each company could invest on the basis of current performance compared with previous year or with other company.

Venkataramana and Ramakrishnan (2019)<sup>3</sup> measured the profitability and financial position of



selected Coir companies in India through various financial ratio and applied correlation, mean, standard deviation and variance. The study uses liquidity and profitability ratios for assessment of impact of these ratios on profitability. Further financial performance was checked by regression analysis of selected Coir companies.

**Indhumathi, et.al., (2020)<sup>4</sup>** in her research “A study on financial performance of selected Coir companies in India” from the year 2015-

20 they made an attempt to know the profitability and financial position of selected Coir companies. Tools that used for the study is profitability ratio, over all financial position. They found that the overall financial performance of selected Coir companies was not stable. It fluctuates. To strengthen the financial position, long term funds have to be used to finance. The companies should try to use properly their operating assets and minimize their non-operating expenses.

**G.Y. Qied all (2021)<sup>5</sup>** attempt to analyse both concept and research based studies. Performance analysis may be regarded as the lifeblood of any business unit. Its

effective management can do much more to the success of the business while its ineffective management will undoubtedly lead to failure of the business. It is in this context that the management of performance analysis assumes paramount importance. In the present scenario of competition, the business does not have any other option than reducing the cost of its operations in order to survive and continue to be financially healthy.

**John Z. Ni ed all (2022)<sup>6</sup>** The increase in the number of high-profile product recalls in recent years highlights the issue of ensuring product safety in global supply chains. Although the financial effect of a product recall announcement has been previously investigated from the perspective of manufacturers, it has not been investigated for retailers. Because retailers are the interface between consumers and the upstream supply chain, they play an important role as the first link in the reverse supply chain. Building upon attribution theory, signaling theory and prospect theory

### 3. RESEARCH METHODOLOGY

Research methodology is a systematic way of solving the problem. It includes the overall research design, the sampling procedure, data collection method and analysis procedure.

### Research design

It stands for advance planning for collection of the relevant data and the techniques to be used in analysis, keeping in view the objectives of the research and availability of time, as the researcher is analysing the past data and predicts the future trend, it is naturally comes under analytical research design.

**Period of study:** This study contains the Financial performance analysis for the period of four years from 2018-22

**Data collection:** The analysis of financial condition and performance of the enterprise necessitates with reliable data therefore the data for the present study is collected with the help of secondary data.

**Tools and techniques:** To arrive at research findings and the conclusion of the present study, ratio analysis, comparative balance sheet analysis and Trend analysis have been used.

1. Ratio Analysis
2. Trend Analysis
3. Comparative Balance Sheet

### RATIO ANALYSIS

A ratio is a simple arithmetic expression of relationship of one number to another. Ratio is an expression of the quantitative relations between two numbers. Ratio analysis is a technique of analysis and interpretation of financial statements. It is a process of establishing and interpreting various ratios which help in making certain decisions. Three steps involved in ratio analysis are:

- Selection of relevant data from the financial statement depending upon the objective of analysis. Calculation of appropriate ratios from the above data.
- Comparison of the calculated ratios with the ratios of the same firm or the ratios of some other firm or the comparison with the ratios of the industry to which this firm belongs and interpretation of ratios.

### TREND ANALYSIS

Trend Analysis is a statistical technique that tries to determine future movements of a given variable by analysing historical trends. In other words, it is a method that aims to predict future behaviours by examining past ones.

### COMPARATIVE BALANCE SHEET

The trend is your friend when you compare balance sheet accounts over time. A comparative balance sheet analysis is a method of analysing a company's balance sheet over time to identify changes and trends.



### III. FINDINGS, SUGGESTION AND CONCLUSION

#### 3.1 FINDINGS

- The last year it was decreased to 0.57 in 2021-22. The current ratio is fluctuating trend.
- The final year of 2021-22 has again decreased to 2.07. So the fixed asset ratio is decreasing level.
- Hence the firm is not controlling its stock position because there are in-linear relationship between current ratio and liquidity ratio.
- It was increased from the year 2021-22 is 1.39. Hence the company is good maintaining its debt position.
- Hence the company is maintaining its bad level position of assets. The Total assets turnover ratio was fluctuating trend.
- Loans and advances to current assets ratio and ratio is 2017-18 to 0.22 and in the year of 2018-19 ratio was small decrease to 0.16 and 2020-21 ratio was increase to 0.29. The last year of 2021-22 is increase to 0.35. So increased to the end of the year.
- It was again decreased from the year 2021-22 is 0.00. So the Return on Assets ratio was decreasing in year by year.
- In the year 2017-2018 the ratio was 0.76 which is increased 1.05 in the year 2018-2019, and also in the subsequent two year that is 2019-2020, 2020-2021 it decreased to 0.92, 0.78. In the year 2021-2022 it increased to 1.21. Its sales to Fixed assets comparison shows the fairly good position.

#### TREND ANALYSIS

The Current asset percentage was fluctuating for year by year. The Current liability percentage was decreased year by year. It was bad performance by the company. The Working capital percentage was fluctuating to year by year.

#### 3.2 SUGGESTIONS

- The firms have low current ratio so it should increase its current ratio where it can meet its short term obligation smoothly.
- Liquidity ratio of the firm is not better liquidity position in over the 5 years. So I suggested that the firm maintain proper liquid funds like cash and bank balance.
- The firm high inventory so I suggested that the firm must reduce the stock and increase sales.
- The direct material cost of the firm is very high so it's my Suggest to the firm that

to decrease the direct material cost by purchasing raw material from the other supplier

- The firms should have proper check on the manufacturing process of the plant. Each and every year's inventory level should be flexible for the stock level.
- The company should control fluctuations in cash and bank balances as it impacts the current ratio of the company.

#### 3.3 CONCLUSION

The project entitled "A Study on financial Performance analysis of Coir Industry" was undertaken with the objective of financial statement and to examine profitability performance of the company. From the study Gross Profit and Net profit position was good.

This project of financial Performance analysis in the production concern is not merely a work of the project. But a brief knowledge and experience of that how to analyse the financial statement of the firm the study undertaken has brought in to the light of the following conclusions. According to this project I came to know that from the analysis of financial Performance it is clear that Coir Industry. They have been incurring loss during the period of study. So the firm should focus on getting of profits in the coming years by taking care internal as well as external factors. And with regard to resources, the firm is take utilization of the assets properly. And also the firm has a maintained high inventory. The liquidity position should be increase in the company. Long term solvency position of company was satisfactory. The Overall Financial Performance of Coir Industry was good.

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