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CREDIT MANAGEMENT AND FINANACIAL ANALYSIS FOR RAJ KISHORE CONSTRUCTIONS, CHENNAI

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Abstract: "An individual or company that owes debt to another individual of company (the creditor) as a result of borrowing or issuing bonds also calls obligor.The main objective of this project is to study and analyze how effectively the debtor's and debt are being managed in Raj Kishore Constructions. From a responsibility perspective, this policy is relevant to all departmental officials. It is, however, specifically applicable to all officials who have a formal, administrative duty to manage duty to manage and control departmental debts, including the recovery and write-off debts, owed to the Department. The study is proposed to highlight on the various aspects like company's ability to get back their loans at agreed duration and installment, the company's ability to retrieve their money from the defaulter or any compensation for the same and legal actions taken against default customers. Trade credit creates accounts receivable or trade debtors. The customers from whom receivable or book debts to be collected in future are called trade debtors or simply as debtors, who constitute a substantial portion of current assets of several firms. A credit sale has three characteristics, it involves element of Risk Economic value Futurity. The secured bearing credit given to private sector can still be increased to minimize the risk on returns. Inventory, working capital, interest fixation, collection period, customer's ability or repay the credit given by the company should be carefully governed by the company in order to enhance the performance of debtor's management.

Keywords: Credit management, Economic Value, Risk and return

INTRODUCTION

DEBT AND DEBTORS MANAGEMENT

DEFINITION

"An individual or company that owes debt to another individual of company (the creditor) as a result of borrowing or issuing bonds also calls obligor.

Section 45 (budget) and (C) of the Public Finance Management Act places the onus on each official within the department to take responsibility for the effective, efficient, economical and transparent use of financial and other resources within that official' stainless steel area of responsibility. In particular the official must take effective and appropriate steps to prevent, within that official' area of responsibility, any unauthorized, irregular, fruitless and wasteful expenditure and any under-collection of revenue due.

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SCOPE OF APPLICATION

From a responsibility perspective, this policy is relevant to all departmental officials. It is, however, specifically applicable to all officials who have a formal, administrative duty to manage duty to manage and control departmental debts, including the recovery and write-off debts, owed to the Department.

OBJECTIVES OF THE STUDY

- To study and analyze how effectively the debtor's and debt are being managed in Raj Kishore Constructions.
- To study the credit policy in Raj Kishore Constructions and to give them suggestion regarding pertinent development and actions to strengthen the receivables management process of the company.
- To do a comparative analysis regarding the increase in sales of the company.
- To do a trend analysis regarding the payable to the increase or decrease in the company.

NEED FOR THE STUDY

The study is proposed to highlight on the various aspects like company's ability to get back their loans at agreed duration and installment, the company's ability to retrieve their money from the defaulter or any compensation for the same and legal actions taken against default customers.

The study will say about the various credit proposals applied to the company are bound to repay it in pre specified duration in agreed installment and interest rates.

LITERATURE REVIEW

Brief Summaries of Articles Reviewed and Relevant to the Project Involving Credit Management and Financial Analysis in a Company.

• Ahlgrim, D'Arcy and Gorvett, 1999, "Parameterizing Interest Rate Models," Casualty Actuarial Society Forum, Summer 1-50. *http://www.casact.org/pubs/forum/99sforum/99sf001.pdf*

Uses simulation to develop future scenarios for various applications. Wilkie's provides a review of historical interest rate movements from 1953-1999, summarizes the key elements of several interest rate models and describes how to select parameters of the models to fit historical movements.

• Ait-Sahalia, 1999, "Do Interest Rates Really Follow Continuous-Time Markov Diffusions?" University of Chicago Working Paper examines whether interest rates follow a diffusion process (continuous time Markov process), given that only discrete-time interest rates are available. Based on the extended period 1857 to 1995, this work finds that neither short-term interest rates nor long-term interest rates follow Markov processes, but the slope of the yield curve is a univariate Markov process and a diffusion process.

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It shows all the details of data which have been used for the research and procedures which have been followed in the study.

1.5.1. Research Design

The method adopted for the study is historical research. It is based on the study of past and current records of existing delinquent customers to analyze the default status of their account and its significance in order to draw a conclusion. The research is descriptive in nature as the study was done on the existing data. The research design used in this study is descriptive research design. A descriptive study is undertaken in order to study and analyze the receivables of the company with the available data.

DATA COLLECTION

Secondary Data

It was got from the published annual reports and database of the company for the corresponding years for which the study has been made.

Tools for Analysis

In order to study and analyzes the debtors management of the company the following tools are used.

- Ratio Analysis
- Comparative financial statement
- Trend Analysis
- Ratio Analysis

Ratio analysis is one of the popular tools of financial statement analysis. A ratio can be defined as "indicate quotient of two mathematical expressions" and as "the relationship between two or more things". A financial ratio is defined as a relationship between two variables taken from financial statement of the concern.

Comparative Financial Statement

Any financial statement that reports the comparison of data of two or more consecutive according periods is known as comparative financial statement.

LIMITATIONS

- The data available was not sufficient for researching the project in detail.
- Usage of large numerical values resulted in approximation of values.
- The ratio analysis gives only the approximate value which is not the accurate result.

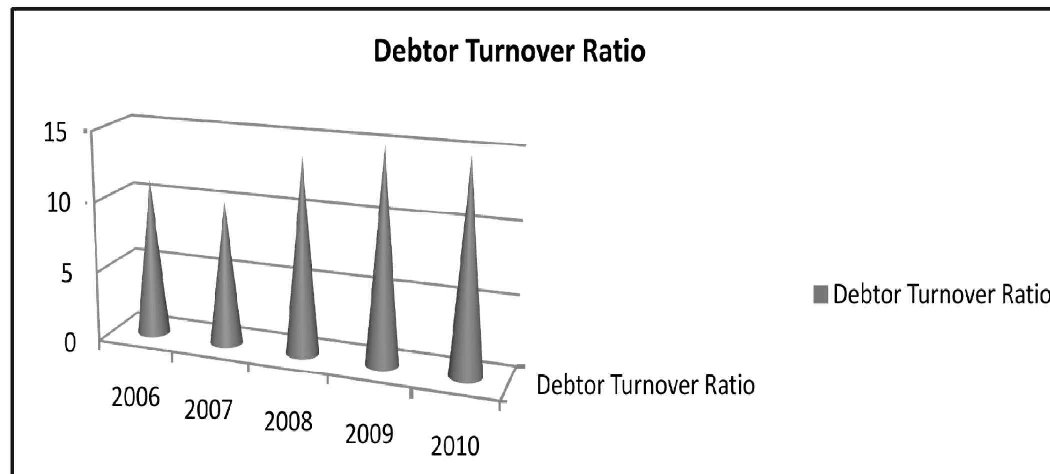
DEBTORS TURNOVER RATIO

Years	*Debtors Turnover Ratio*
2006	11.16
2007	10.14
2008	13.74
2009	15
2010	14.8

INFERENCE

The above table shows that the debtors Turnover Ratio lies within its upper limit and also maintains a reasonable level which if is useful for the liquidity of the firm.

Chart 2.1.1



2.1.2. Debt Collection Period

The average collection period measures the quality of debtors because; it measures the speed of their collection. Shorter the average collection period, their quality if debtors as a short collection period implies the prompt payment by debtors. An excessively long collection period implies a very liberal and inefficient credit and collection performance. This certainly delays the collection of each and imparts of the company's liquidity.

Thus the collection period ratio indication in two aspects:

(a) In determining the collectables of debtors.

(b) In ascertaining the company's comparative strength and advantages relatives to its credit policy a Performance vis-à-vis the competitors credit policies and performance.

Debt collection period= Credit Sales *365days

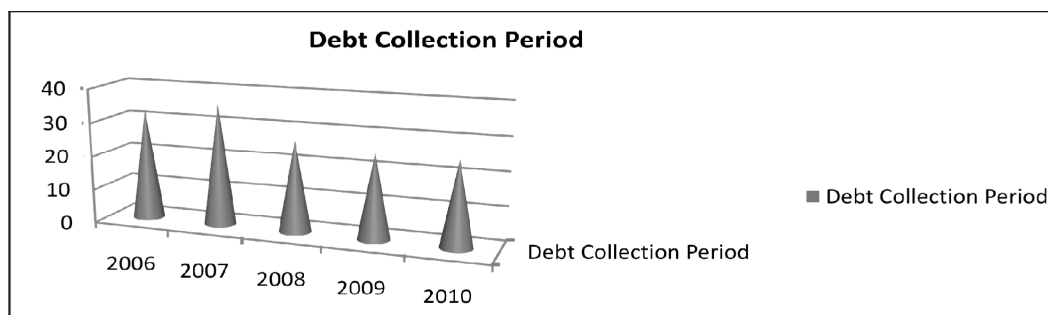
Table 2.1.2
Debtor's Collection Period

Year	*Debtors*	*Credit Sales*	*Debt Collection Period (Days)*
2006	1380	15502	33
2007	1660	16837	36
2008	1550	21297	27
2009	1908	28345	25
2010	1882	27838	25

INFEPRENCE

The above table shows that the debt collection period reduced in the consecutive years, as the credit collection is done faster. Also it is noted that the debt collection period is get minimized after years 2003 continuously, thus the company is reviewing its credit policy every year to collect the debts within stipulated time period.

Chart 2.1.2



2.1.3 Dept Equity Ratio

Dept equity ratio also known as external – internal equity ratio, is being calculated in order to know the relationship between the shareholders find and outsiders fund. The outsider's debt includes all long term and short term debts. While share holder fund consist of paid up capital, reserve and surplus. Debt equity ratio is calculated by dividing the long term debt by internal equity.

Dept equity ratio = External equity/Internal equity.

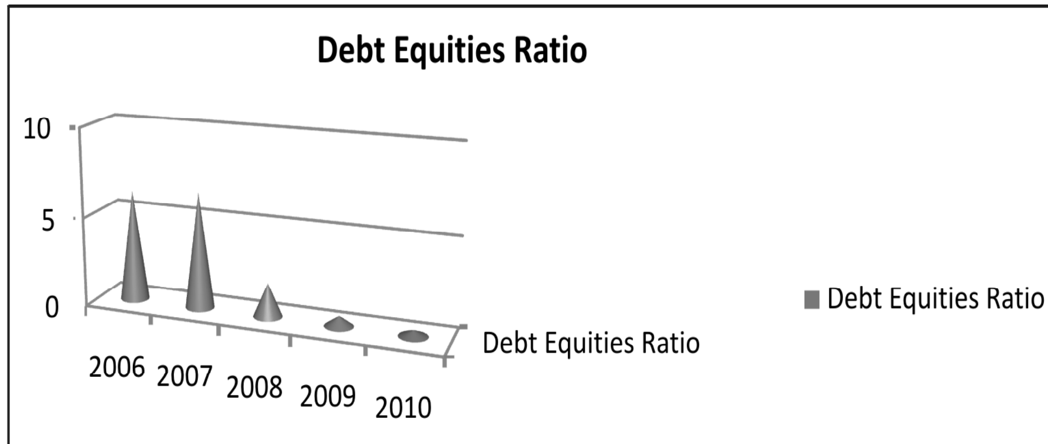
Table 2.1.3
Debtor's Equities Ratio

Year	*External Equities*	*Internal Equities*	*Debt Equities Ratio*
2006	14019	2252	6.22
2007	12928	1989	6.5
2008	8650	4859	1.87
2009	5770	10011	0.58
2010	4298	12385	0.35

INFERENCE

It is found out from the above table that the debt-equity ratio is decreasing gradually from 2006 to 2010, due to increase in the internal equity by the company.

Chart- 2.1.3



DEBT TO TOTAL ASSETS RATIO

Debt to total assets ratio is relate to the debt to capital ratio. The total debt of the firm comprises long term debt plus current liabilities. Total assets consist of permanent capital plus current liabilities.

Debt to total asset=Total debt/Total assets

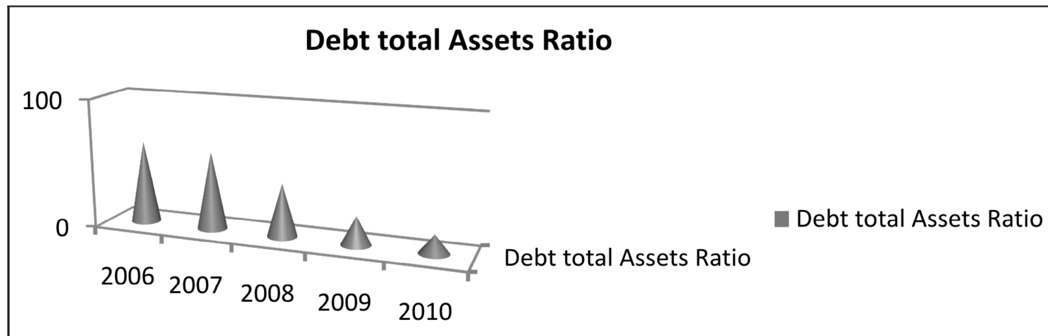
Table – Debt To Total Assets Ratio

Year	*Total Debt*	*Total Assets*	*Debt to total Assets*
2006	14019	21905	64
2007	12928	21318	60.48
2008	8690	21243	40.91
2009	5770	26672	21.63
2010	4298	29546	14.55

INFERENCE

From the above table shows that debt to total assets ratio in the year was 0.6 times. It has decreased gradually year by year if ranges between 0.6 times to 0.15 times.

Chart



2.1.5. Interest Coverage Ratio

Interest coverage ratio is also known as time interest ratio. This ratio measures the debt servicing capacity of a firm insofar as fixed interest on long term loan is concerned. It is determined by dividing the operating profits or earning before interest and taxes (EBIT) by the fixed interest charges on loans.

$$\text{Interest Coverage ratio} = \frac{\text{EBIT}}{\text{Interest}}$$

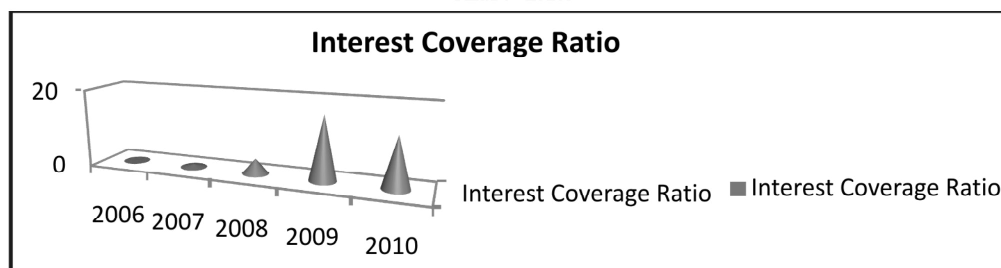
Table - Interest Coverage Ratio

Year	*EBIT*	*Interest*	*Interest Coverage Ratio*
2006	145	1562	0.09
2007	1018	1334	0.76
2008	3529	901	3.92
2009	9970	605	16.48
2010	6174	468	13.02

INFERENCE

From the above table shows that interest coverage ratio in the year 2006 was 0.09 times. It has increase year by year up to 2009. Again it has a shows slight decrease by 13.20.

Chart -2.1.5



COMPARATIVE FINANCIAL STATEMENT

Table

PARTICULARS	*2006-07*	*2007-08*	*2008-09*	*2009-10*
TOTAL SALES	557.35	1008.83	770.12	1299.27
CREDIT SALES	41.52	68.68	92.57	150.01
TOTAL DEBTORS	42.81	19.01	18.93	28.64
A)PUBLIC SECTOR	2.02	2.33	2.57	3.28
GOVT. PARTIES	15.71	0.93	3.09	3.39
PRIVATE	25.08	15.75	13.27	21.97
B)CATEGORYWISE:				
> 6 MONTHS	27.24	4.84	5.32	15.45
6 MONTHS-1 YEAR	0.32	0.14	0.06	0.01
1-3 YEARS	0.21	0.07	0.10	0.02
2-3 YEARS	0.01	0.09	0.04	0.01
> YEARS	14.97	13.87	13.41	13.15

INFERENCE

The Total Sales from the year 2009-10 has been continuously increasing. It shows that the company is performing well. The credit sales has also been increasing in correspondence to total sales, thus the increase in credit sales has increased the total sales value for value the company. The shows that the company is continuously improving its credit policy over every year.

The Total Debtors value in the year 2006-07 is 42.81 and the in the consecutive years the debtors value is decreased, thus the receivables was attained within the stipulated time period as per the credit policies they followed.

The company has given credit in large to the private organization (single) and the debts are received by the company in time, whereas the company gives credit comparatively less to the public and Government sectors.

The bed debt value is nil which is noted from their balances sheets from year 2006-07 to 2009-10. In proves that the company is doing well in managing their debtors.

The credit is given to its customers mainly in the fashion, either < months or > years and also from months – year, - years. It shows that the company is practicing short term, mid term and long term credit terms according to their customer needs. Since the company is collecting large value of debts in short term (< months) duration, the company can have a good working capital to meet its current liabilities, reserve and surplus, and can also plan its future investments.

FINDINGS

- The debtor's turnover ratio is debt period under the control of the organization.
- The debt collection period has reduced in the consecutive years as the credit collection is done fasters.

- The interest coverage ratio is falling after a good sign of increases.
- The debt to total assets ratio is gradually decreased by year by year.

SUGGESTIONS

- The credit policy of the company is concludes that the secured bearing credit given to private sector can still be increased to minimize the risk on returns.
- The debt equity ratio is good sign for the company with decrease constantly.
- The interest coverage ratio is good sign for the company with decrease constantly.
- The interest coverage ratio should be increased to achieve further investment for expansion.
- The debt to total assets ratio is desirable from the point of the creditors as there is sufficient margin of safety.
- From the study it is inferred that collection period, customers ability to repay the credit given by the company, are also some of the parameters which has been involved in debtors management.

CONCLUSION

Trade credit creates accounts receivable or trade debtors. The customers from whom receivable or book debts to be collected in future are called trade debtors or simply as debtors, who constitute a substantial portion of current assets of several firms. A credit sale has three characteristics, it involves element of Risk Economic value Futurity.

The secured bearing credit given to private sector can still be increased to minimize the risk on returns.

Inventory, working capital, interest fixation, collection period, customer's ability or repay the credit given by the company should be carefully governed by the company in order to enhance the performance of debtor's management.

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