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AN INTERPRETATIVE STUDY OF SHORT-TERM FUND MANAGEMENT OF SELECT LISTED COMPANIES ON BSE SME STOCK EXCHANGE

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ABSTRACT

The asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The asset turnover ratio can be used as an indicator of the efficiency with which a company is using its assets to generate revenue. The higher the asset turnover ratio, the more efficient a company is at generating revenue from its assets. Conversely, if a company has a low asset turnover ratio, it indicates it is not efficiently using its assets to generate sales. Typically, the asset turnover ratio is calculated on an annual basis. The higher the asset turnover ratio, the better the company is performing, since higher ratios imply that the company is generating more revenue per rupee of assets.

This research paper seeks to evaluate the performance of select listed companies listed on BSE SME stock exchange which is a unit of Bombay Stock Exchange dedicated exclusively for trading shares and securities of SME companies. An attempt has been made to throw light on historical performance of companies in terms of Asset turnover ratios. Sample has been designed to accommodate companies with longest listed historical data from heterogenous industries. Financial balances of companies from 01.04.2013 to 31.03.2020 were considered for the purpose.

Key words

BSE SME, DE Ratio, Current ratio, Quick ratio, leverage

Introduction

Ever since the First Five Year Plan began in 1951 (1951-56)[1], Governments have continued to place a conspicuously glaring gravity on the SMEs. This has continued in the industrial policy as well. Ensemble SMEs have exhibited stable growth and cohesion ultimately concocting the torsion bars of the ever fluttering economic engine working post the point of time since the Indian sub-continent has opened up to the global investing opportunities by lifting the trade barriers.

A legislation pertaining to Micro, Small and Medium Enterprises Development (MSMED) Act, 2006[2] was enacted to simplify and augment the initiation and progress of the chrysalis SME sector and also to fortify market creation and sustenance from competition from the corporates and related concerns. The process of liberalization and market reforms since 1991 has brought about intense competition for MSMEs both in domestic and overseas markets. This has made it imperative for the Indian MSMEs to overcome the challenges that they face and maintain, improve and sustain competitiveness through lower cost, improved quality, making available wider choice by initiating various measures including innovation and up-gradation of technology.

More than 90 per cent of MSMEs in India are either proprietorship or partnership enterprises and therefore, it is imperative to strive towards corporatization of Small & Medium Enterprises for good corporate governance as well as to energise the economy as a whole. Despite the benefits associated with public listing, the SMEs were not able to access the capital markets through extant Stock Exchanges due to several factors such as stringent regulatory, disclosure and financial requirements and the like. The creation of a separate stock exchange for SMEs has been on the policy makers' agenda for quite some time, and finally in March, 2012, BSE SME Exchange had been setup by the Bombay Stock Exchange (BSE) to provide Small and Medium Sized Enterprises (SMEs) a platform for raising equity capital for their growth and expansion. A dedicated stock exchange for SMEs would allow them accessing capital markets easily, quickly and at lesser costs.

Objective

This study mainly focuses on bringing out the Current Ratio patterns and Quick Ratio patterns of select listed companies on BSE SME Stock exchange with a view to bring out the funding patterns and availability of credit facilities for the companies listed on BSE SME Stock exchange.

Methodology

All the information required for this study has been collected and compiled from secondary sources (Registrar of companies and BSE-SME platform) as the subject matter comprises only of listed SME companies. BSE SME is a trading platform floated by The Bombay Stock Exchange under the guidelines of SEBI. Further operation of various frameworks like SEBI Guidelines, ROC (Registrar of Companies) filings, application of SCRA (Securities Contracts Regulation Act) Companies Act 2013 etc., make the secondary data most reliable and accurate fit for research purposes.

The present study is confined to the study of performance of select SMEs listed on the Bombay Stock Exchange. For qualitative and quantitative analysis of the financial data over time, a minimum period of 7 full listed years has been preferred. For this, full seven years' data i.e., from 01.04.2013 to 31.03.2020 has to be considered. Hence companies listed on or before 01.04.2013 have been considered. In this process 6 companies from four different industries are available for study and analysis and hence the said six companies have been chosen. Census method has been adopted for this study.

The Companies selected for study based on date of listing are as follows:

S.No.	Company Name	Date of Listing
1.	Pyxis Finvest Ltd	04-09-12
2.	Jointeca Education Solutions Ltd.	12-03-13
3.	Channel Nine Entertainment Ltd.	07-02-13
4.	Esteem Bio Organic Food Processing Ltd.	14-01-13
5.	Eco Friendly Food Processing Park Ltd.	19-03-13
6.	HPC Biosciences Ltd.	13-03-12

ASSET TURNOVER RATIO

Asset Turnover Ratio measures a company's capability to generate sales for a given value of it's assets. It is calculated as a ratio between the turn over and the assets of a company. This ratio measures the net sales as a percentage of the total assets of the company. This metric helps the users to understand how effectively the company is able to use its assets to generate revenues[4]. This ratio can be used for comparison between similar companies belonging to the same industry to identify as to which company is capable of making most use of its assets and to identify the weaknesses. A comparison of the same across different industries may not be productive.

In general, a higher asset turnover ratio indicates more efficient usage of the assets by the company and vice versa. Asset turnover ratio is typically given by the formula,

$$Asset\ Turnover\ Ratio = \frac{Net\ Sales}{Average\ Assets}$$

where,

Net sales is taken as the net value of Sales (-) Sales Returns (+) Direct Operating Incomes in case of manufacturing and trading concerns and and Net Direct Operating Revenues in case of service entities, and

Average Assets is given by the formula

$$Average\ Assets = \frac{Opening\ Assets(+)Closing\ Assets}{2}$$

Where opening assets means assets at the beginning of the year and closing assets means assets at the end of the year.

It is imperative to note that the value used on the denominator of the formula is average assets and not opening or closing assets[5]. This is because of the fact that the average of assets is assumed to have been put in use throughout the year to generate the net revenues generated and reported in the financial statements. Also care should be taken to exclude the sales returns from the total turnover to reflect the real value addition and gross margin added to the company's worth during the period under consideration. While manufacturing concerns have sales revenues and Direct Incomes as the principal sources of revenue, Service entities have Direct Revenue (service consideration) as the items comprising operating revenues. This metric reflects the entity's usage of the asset base in generation of revenues, which also is a measure of the managerial acumen. Provided a highly efficient set of people are at the helm of affairs, the asset turnover ratio should reflect a very positive value. An efficient manager is supposed to manage the assets and business to generate multiple folds of income with a given asset base and thereby generate a healthy return to the shareholders.

To determine the value of a company's assets, the average value of the assets for the year needs to first be calculated first. A step by step procedure is suggestible in this exercise

1. Locate the value of the company's assets on the balance sheet as of the start of the year.
2. Locate the ending balance or value of the company's assets at the end of the year.
3. Add the beginning asset value to the ending value and divide the sum by two, which will provide an average value of the assets for the year.
4. Locate total sales—it could be listed as revenue—on the income statement.
5. Divide total sales or revenue by the average value of the assets for the year.

Typically, the asset turnover ratio is calculated on an annual basis. The higher the asset turnover ratio, the better the company is performing, since higher ratios imply that the company is generating more revenue per rupee of assets.

The asset turnover ratio tends to be higher for companies in certain sectors than in others. Retail and consumer staples, for example, have relatively small asset bases but have high sales volume—thus, they have the highest average asset turnover ratio. Conversely, firms in sectors such as utilities and real estate have large asset bases and low asset turnover.

Sometimes, investors and analysts are more interested in measuring how quickly a company turns its fixed assets or current assets into sales. In these cases, the analyst can use specific ratios, such as the fixed-asset turnover ratio or the working capital ratio to calculate the efficiency of these asset classes.

The working capital ratio measures how well a company uses its financing from working capital to generate sales or revenues.

A company may attempt to raise a low asset turnover ratio by stocking its shelves with highly saleable items, replenishing inventory only when necessary, and augmenting its hours of operation to increase customer foot traffic and spike sales. Just-in-time(JIT) inventory management, for instance, is a system whereby a firm receives inputs as close as possible to when they are actually needed. So, if a car assembly plant needs to install airbags, it does not keep a stock of airbags on its shelves, but receives them as those cars come onto the assembly line.

Like many other accounting figures, a company's management can attempt to make its efficiency seem better on paper than it actually is. Selling off assets to prepare for declining growth, for instance, has the effect of artificially inflating the ratio. Changing depreciation methods for fixed assets can have a similar effect as it will change the accounting value of the firm's assets.

However, the asset turnover ratio can be misleading at times in peculiar cases. To illustrate, the formula assumes that additional sales are good to the company while the real measure of a company's effective operation is the value added or profits generated. Hence, if a loss-making company is considered, the asset turnover ratio can indicate positive signs even if the company makes a gross loss. Hence it can be concluded that the Asset Turnover Ratio cannot, in principle, reveal anything about the profitability or the viability of the business model or the business idea. This ratio can be even more misleading if the company operates on outsourcing model. To illustrate, a company operating on high outsourcing of its manufacturing and allied activities like pay roll processing and the like, it is more likely to have a minimal asset base compared to similar companies in the industry that conduct their operations on their own.

While the asset turnover ratio should be used to compare stocks that are similar, the metric does not provide all of the detail that would be helpful for stock analysis. It is possible that a company's asset turnover ratio in any single year differs substantially from previous or subsequent years. Investors should review the trend in the asset turnover ratio over time to determine whether asset usage is improving or deteriorating.

The asset turnover ratio may be artificially deflated when a company makes large asset purchases in anticipation of higher growth. Likewise, selling off assets to prepare for declining growth will artificially inflate the ratio. Also, many other factors (such as seasonality) can affect a company's asset turnover ratio during periods shorter than a year.

Asset Turnover Ratios of the select listed companies on BSE SME have been presented in table 1 for the years ending on 31st March, 2014 to 31st March, 2020.

TABLE 1

ASSET TURNOVER OF SELECT LISTED COMPANIES ON BSE SME DURING THE YEARS 2013-14 TO 2019-20

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Mean
Pyxis Finvest Ltd	9.72	8.14	12.15	9.08	16.39	12.83	4.8	10.44
Jointeca Education Solutions Ltd.	32.43	17.74	11.02	8.72	6.66	5.47	1.01	11.86
Channel Nine Entertainment Ltd.	9.22	12.00	9.48	6.88	1.85	0	0	5.63
Esteem Bio Organic Food Processing Ltd.	10.75	8.09	8.23	8.15	7.14	7.14	5.22	7.81
Eco Friendly Food Processing Park Ltd.	13.23	8.89	9.23	8.87	6.17	6.3	4.1	8.11
HPC Biosciences Ltd.	11.77	10.41	6.18	7.28	6.22	5.01	3.73	7.22

Source : Annual reports of select listed companies

A closer examination of the above 1 table reveals that not all the companies have been performing consistently with respect to the asset bases they have employed. In case of Pyxis Finvest Ltd., the company has shown a parabolic trend of Asset turnover ratios. Starting at 9.72 in 2013-14, it has risen to 16.39 in 2017-18 which is a very attractive numeric for an investor but later on it dropped considerably to 4.8 in 2019-20 which means that the sales values are not enough to support or justify the investment quantum in the assets of the company.

In the case of Jointeca Education Solutions Ltd., the numbers are quite worrisome as the asset turnover ratios have been on the downward spiral since 2013-14. Making a strong start at 32.43 in 2013-14, it fell down to 1.01 in 2019-20. This means that the company made more than 32 times in terms of turnover during 2013-14 – in comparison with assets as reported in the annual balance sheet. The same fell down to a mere more than 1 time during 2019-20.

It can be understood from the values reported by Channel Nine Entertainment Ltd., that the company had faced a stoppage in sale activity during the last two years under study. Later on the company has shown a declining trend in asset turnover ratios.

Esteem bio organic Food Processing Ltd., Eco Friendly food processing Park Ltd., and HPC Biosciences Ltd., have also shown a declining trend in the case of asset turn over ratios. The three companies have reported an average of 7.81, 8.11 and 7.22 asset turn over ratios respectively during the research period. However, the average cannot complement the fact that their least asset turnover ratios have been reported during the ending year under study that is 2019-20 as 5.22, 4.1 and 3.73 respectively.

CONCLUSION

Getting the investment back fruitfully is the first priority of any investor in the business world. Asset turnover ratio is one of the many means to check the speed of recovery of investment from any business. A steadily growing and high asset turnover ratio is always desirable from all possible perspectives for a company to flourish and to attract funding from both the investing and lending communities. It has to be noted that turnover should not be misunderstood to profitability as both direct and indirect costs besides amortisations and appropriations are reduced to arrive at the profit to check the recovery of investment. In the present study, the companies under study have reported financial figures historically which on analysis revealed alarming trends as far as achieving desirable asset turnover ratios is concerned. The managements of the companies have to devote enough attention and place additional efforts to improve on the turnover to bring about an upward trend in the asset turnover ratios in the future years.

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