

P R E F A C E

It is well established in the literature that as an instrument of forewarning the Ratio Analysis Technique associated with sophisticated statistical and mathematical tools is helpful in predicting various aspects of the financial distress of corporate units. Prediction of different degrees/statuses of corporate financial health, in an objective manner, is very important as well as necessary as this can be used as a vital device for monitoring the financial distress and can help to take corrective actions to remove the maladies of financial distress. Identification of different degrees/statuses of corporate financial health in general can satisfy a wide range of parties interested in corporate units. The context necessitates investigation as to whether financial ratios can reflect different degrees of financial health; and if they do, an assessment of the predictive ability of the ratios in identifying different degrees of firm's financial health becomes inevitable.

Assessment of the predictability of financial ratios can be approached in a variety of ways — both theoretically and empirically using simple/sophisticated quantitative techniques. In the latter approach, the ratio-trend and the ratio magnitudes could be studied using a variety of sophisticated statistical and mathematical tools like, Multiple Discriminant Analysis, Probability Analysis, Maximum Likelihood Analysis, etc.

In this study, the effectiveness of the financial ratios in identifying different degrees of corporate financial health were assessed, and the classification accuracy of the 'Sets' of ratios were compared with a view to determine the best 'ratio set' for such identification/prediction using Multiple Discriminant Analysis technique having the Tea Industry as the base. In response to the above, this study has been divided into following five chapters:

- (i) the 1st Chapter introduces with the problem;
- (ii) the 2nd Chapter examines, in the light of the previous study, the areas for further research;
- (iii) the 3rd Chapter examines the significance and predictability of the financial ratios in discriminating different degrees of corporate financial health of tea units;
- (iv) the 4th Chapter examines the relevance of the findings of the present study (in terms of classification accuracy of the 'Set of ratios' selected) in the light of the results of the models suggested by the previous researchers in this context; and
- (v) the last Chapter summarises the study along with this author's views.

The definition of 'Sickness' provided by the Indian authorities was followed in this study and data for both the 'initial' and 'secondary' sample were collected from the public limited companies of West Bengal. Multiple Discriminant Analysis technique (linear form) was used to derive prediction models.

Thirty-six (36) financial ratios (out of 52 sample ratios) were identified by using statistical significance tests and were selected as the independent variable in the discriminant analysis. The simultaneous method was used to derive discriminant functions. On the basis of the discriminating power of financial ratios (i.e. independent variables) small 'sets' of ratios were formed to assess the predictability of those ratios through the comparison of the classification accuracy of the derived small 'sets' of ratios. The results were tested on the 'secondary' data sample also.

The statistical significance tests and the classification accuracy of the 'sets' indicated that financial ratios from published annual accounting data were useful in identifying/predicting different degrees of corporate financial health of tea units. The findings of the study revealed that the magnitudes of the financial ratios (at least the 36 ratios highlighted in this study) of tea units having dissimilar financial health differed from one another, and it was possible to identify quantitatively the various degrees of financial health of corporate tea units. The 'set' of financial ratios containing 'OCF/Total Debts', 'Retained Profit + Depreciation Charge/Total Debts', 'Retained Profit + Depreciation Charge/Tangible Assets + Accumulated Depreciation' and 'Net Worth/Total Debts' was the

best 'set' to indicate corporate financial health in Tea Industry.

This humble study may provide help (along with other theoretical analyses) to financial analysts, investors, agencies including the Government, lending institutions, the management and others interested in tea units for their step of actions to be persuaded.

Raiganj,
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