A comparison between two-year short term and long term borrowings of Diamond Carbide India Private Limited

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Abstract - Trading is one of the important economic areas. This area is responsible for making different products available to its consumers. This study selected company –"Diamond Carbide India Private Limited Bangalore, Karnataka and branch in Hosur, Tamilnadu". 2019-20 and 2020-21, two year financial statement data was collected by this study. This study analyses, based on the company's accounting policies and practices specially related to short term and long term borrowings. This study calculates percentage of borrowings of the company. The Results indicate that, during the year 2020-21, there is an increase in the portion of secured short term borrowings and unsecured long term borrowings and decrease in the portion of secured long term borrowings of Diamond Carbide India Private Limited. These studies conclude that there is an overall increase in the borrowing of company.

Keywords – Diamond, Carbide, Private.

I. INTRODUCTION

India has seen a significant growth in trading sector after 1991 reforms. Therefore, by operating in this sector, company can have the power to influence the market and a pulse on what people want. The tools are designed to make the repairs, modifications, servicing, and etc activities easy while working or using any machine or vehicles. Therefore, right tools and equipments are essential to complete the task and to solve the issue without any error and delay. Diamond Carbide India Private Limited is one of the best trading companies of automobile tools. It is committed to provide the best experience to its customers mainly by the way of accepting customer's requirements and feedbacks. It considers the trends in the industry, to make it easy for the community to purchase the tools they need at affordable prices. For this purpose, it source its tools from premium manufacturers who can understand the trends in the industry and what makes a great set of tools to satisfy the requirements of its customers.

Diamond Carbide India Private Limited is a private company limited by shares and involved in the active and attractive trading of tools mainly related to automobiles. It was incorporated on 10/10/2012. This was started with the intention to carry on the trade in India and also in different parts of the world as a wholesaler, exporter, and importers of the tools related to machines, mainly related to automobiles. This company is registered in Karnataka and its head office is in Bangalore. The branch is in Hosur, Tamilnadu. The company aims to carry on in India or in any part of the world, the business as traders, wholesalers, stock lists, importers, exporters, in carbide and high speed steel cutting tools, power tools, diamond cutting tools and other related items and also to act as a broker, trader, agent, commission, agent, distributor, representative, franchiser, consultant, collaborator, liasioner, job worker, merchandiser and services of all grades, specifications, descriptions, relating to carbide and high speed steels cutting tools, power tools, hand tools and diamond cutting tools. Every company requires finance to meet its financial requirements and to ensure the smooth functioning of its business activities. There are different types of loans that the company can borrow. They may be short term or long term. Short term borrowings help the company to maintain sufficient working capital and long term borrowings helps to develop and expand its business.

II. REVIEW OF LITERATURE

Ara et al. 2016 found that financing of projects in the international trading companies in internal resources: loan, equity participation, installment sale, leasing, internal line of financing, profit sharing respectively and external sources of finance, usance, external line of financing, build, operate and transfer and joint venture respectively involved and closer inspection revealed that there was a significant

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relationship between various methods of financing and success of the project. [1]

Kwenda and Holden 2014 found that factors influence trade credit as a short-term financing; internal resources, sales growth and current asset structure also influence the use of short-term debt. No evidence was found to support the argument that size, creditworthiness, non-debt tax shields and fixed assets explain a firm's use of short-term debt as a source of funds. [2]

Handoo A and Sharma K (2014) identified the most important determinants of capital structure of 870 listed Indian firms comprising both private sector companies and government companies for the period 2001-2010. Ten independent variables and three dependent variables have been tested using regression analysis. It has been concluded that factors such as profitability, growth, asset tangibility, size, cost of debt, tax rate, and debt serving capacity have significant impact on the leverage structure chosen by firms in the Indian context. [3]

Shikumo et,al. 2020 assessed the effect of short-term debt on financial growth of non-financial firms listed at Nairobi Securities Exchange for a period of ten years from 2008 to 2017. The study is guided by Agency Theory and Theory of Growth of the Firm. The target population of the study comprised of 45 non-financial firms listed at the NSE for a period of ten years from 2008 to 2017. The result indicates that, short term debt explains 45.99% and 25.6% of variations in financial growth as measured by growth in earnings per share and growth in market capitalization respectively. Short term debt positively and significantly influences financial growth measured using both growth in earnings per share and growth in market capitalization. [4]

Ohman P and Yazdanfar D 2017 investigated the capital structure determinants of small and medium-sized enterprises (SMEs) with a particular focus on short- and long-term debt. This study results indicate that eight explanatory variables – i.e. size, age, growth, profitability, liquidity, asset tangibility, non-debt tax shields and industry affiliation – are associated to various extents with SME debt policy. [5]

Morshed A 2020 explained the relationship between accounting and finance through measuring the effect of rational working capital management on profitability. This study find that, pointed out the relationship between accounting and finance is complementary, since it supports the accountant by the critical skills and information, like project evaluation, managing the company funding resources and working capital management. These skills put the accountant up to the financial manager stage. The working capital investment and financing policies have the most significant impact on profitability. These policies related to risk and return theory; since the conservative policy will reduce both the risk and return and the aggressive one will have the opposite impact. [6]

Khan t F and Ghayas 2020 explored the factors that affect the capital structure in Indian firms and to know which capital structure theory—whether the pecking order theory or the trade-off theory—justifies the findings of the study. The investigation is performed using panel data procedures on Indian firms during 2009-2018. The dependent variables used are short-term debt, long-term debt and total debt. Profitability, firm's size; growth rate, tangibility, business risk, interest coverage ratio, non-debt tax shield, tax rate and liquidity are taken as the independent variables. The results suggest that variables such as profitability, firm's size, liquidity, and risk and tax rate affect the capital structure of the Indian firms, and short-term debt is found to be an essential financing source of the Indian firms. This study has laid some groundwork to explore the determinants of the capital structure of the Indian firms upon which a more detailed evaluation could be based. [7]

Singh, C., and K. P. Wasdani. 2016 identified various challenges faced by MSMEs in sourcing of finance during different stages of their life cycle. This study is a first-of-its-kind attempt to focus on these aspects. The study further explores whether the financial awareness of MSME entrepreneurs is a major limitation in the identification and utilization of sources of finance. Data was collected through personal interviews using a structured questionnaire from a sample of 85 MSMEs. The survey was conducted mainly in the city of Bangalore covering a wide spectrum of sectors like precision tools, weavers, jewelers, food retailers, metal works, textiles, and book shops. The results reinforce the findings of other studies that utilization of formal sources like banks is significantly small compared with informal sources like personal and family wealth. The study found that the main challenges faced in underutilization of formal sources were inadequacy of collateral assets and lack of financial awareness of entrepreneurs. Based on the conclusion that requirement of finance differs with the life-cycle stage of the MSME; recommendations have been proposed for entrepreneurs, financial institutions, and policy makers. [8]

Dr. G. S. Popli and G. K Jaiswal found the determinants of capital structure choice of selected Indian industries. The main objective is to investigate whether and to what extend the main capital structure theories can explain the capital structure choice of Indian firms. The study applied multiple regression models on the selected industries by taking data for the period 2005-2011. The study concludes that main variables determining the capital structure of industries in India are agency cost, assets structure and size. [9]

C. P. Das and R. K. Swain found that financing decision is one of the important areas in financial management to increase shareholders' wealth. Firms can use either debt or equity capital to finance their assets. The purpose of the study is to find out the determinants of capital structure and its impact on financial performance. The study used secondary data and taken 50 top manufacturing companies

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for study. Regression model has been used to study the relationship and impact of capital structure on profitability. The study concludes that there is a significant relationship between capital structure and profitability and capital structure has significant impact on financial performance of sample companies. [10]

P. Mehta found that capital structure is the most influential factors for overall profitability of the firm. Combination of various asset classes in capital structure may give higher return to company and shareholders. Thus the study examined the impact of capital structure on profitability of the companies listed on Nifty 50 index in India. The study employed correlation and regression analysis on the companies under the study. The study period considered for last ten years ranging from March 2011 to March 2020. Total 35 companies are considered for further data analysis as remaining 15 companies from Nifty 50 index is found to having less operational history. Capital structure is measured with the help of three ratios as debt-equity ratio, long term debt to total assets and short term debt to total assets. Further profitability has been measured as return on capital employed, return on assets and return on equity. The study is helpful to know about the influence of capital structure on the profitability of the firm. [11]

A. K. Panigrahi found the ways in which different companies at different times and in different institutional environments have financed their operations and the implications of these financing patterns. The central issue addressed here is the trend of changes in the capital structure of Indian companies and impact of liberalization on the capital structure decisions of Indian companies. The study also tries to find out the factors that determine the financing pattern of capital structure of Indian companies, particularly in the private sector. [12]

Asif .P. found that financing decisions are considered to be one of the most crucial areas for finance managers while measuring their impact on capital structure and financial performance of the companies. The capital structure of a firm is the composition or structure of its liabilities and therefore it influences the behavior of the company as well as its performance results and also affects its value. The study intended to examine the nature of capital structure and firm's performance. The time period of the study comprises of ten years i.e. 2006-07 to 2014-15 and the data of eight trading companies listed in Bombay Stock Exchange (BSE) have been analyzed. Multiple regression analysis method was used for analyzing and testing of hypotheses. Results of the study reveal that capital structure influences financial performance of firm. The findings show that equity and long term debt have a positive and significant effect, whereas short term debt has a negative impact on financial performance. Thus, from the findings and results it can be concluded that equity and long term debt financing enhances financial performance. [13]

III. METHODOLOGY

This study selected company Diamond Carbide India Private Limited Bangalore, Karnataka and its branch located in Hosur, Tamilnadu. Two year (2019-20 and 2020-21) financial statement data was collected for this study. The study is based on the company's accounting policies and practices specially related to short term and long term borrowings. For this purpose, two years short term and long term borrowings related data of the company is collected. The increase or decrease of each item of the borrowings is ascertained by the comparison of two years data and the percentage increase or decrease is calculated by comparing the same with the base year amount that is, year 2019-20 in this study.

Aim of the study:

The study aims to analyse the impact of borrowings on the perforamance and activities of the company comparing two years short term and long term borrowings of Diamond Carbide India Private Limited**.**

Objectives of the Study:

- To study the concepts of accounting policies and practices in Diamond Carbide India Private Limited.
- To study the overall organization structure.
- To study the profitability of the company.
- To study and measure the Corporate Social Responsibility (CSR) and the company's relationship with its customers.
- To study the Marketing system and Sales policy of the company.
- To give useful suggestions.

IV. DATA ANALYSES AND INTERPRETATION:

Table 1: Short Term Borrowings:

Particulars	2019-20 (Rs.)	2020-21 (Rs.)	Increase/Decrease (Rs.)	Increase/ Decrease (In %)
Secured Loans repayable on demand from Banks: -Yes Bank Overdraft	37,48,881	48,04,534	10,55,653	28.1591%
Unsecured Loans repayable on demand from other parties: -Capital First Ltd. -HDFC Bank Ltd.	6,93,025 4,31,929	- -	-6,93,025 -4,31,929	-100% -100%

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Figure 1:

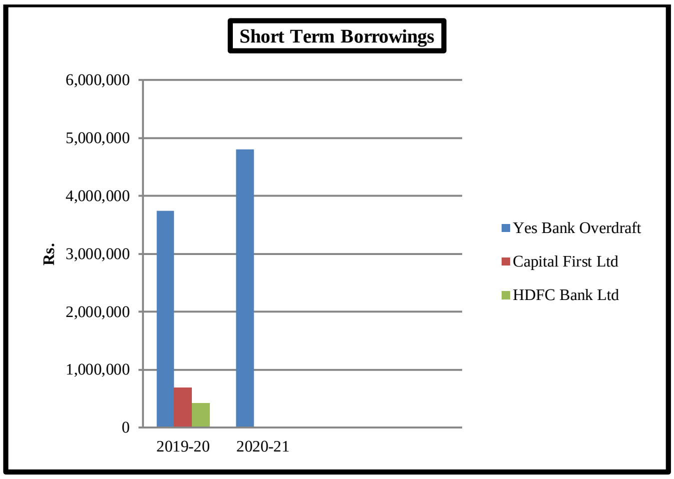
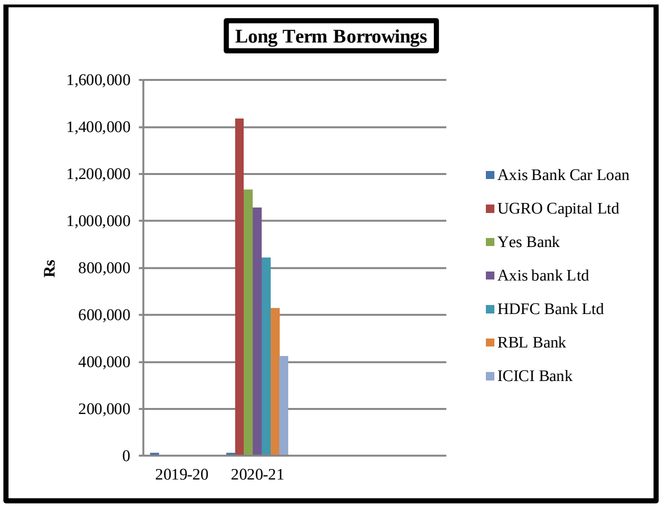


Figure 2:



Interpretation:

The above graph shows the short term borrowings of Diamond Carbide India Private Limited. It consists of both secured and unsecured loans that are repayable on demand. During the year 2020-21, there is an increase in the portion of secured loans. At the same time, the unsecured loans of the company from different financial institutions and other parties are repaid to the full extent.

The policy of the company with regard to short term borrowings such as overdraft, cash credit, etc is to finance working capital requirements and making provision of cash for repayment of borrowings and interests. These borrowings are cost- effective and help to satisfy the temporary capital needs of the business. The company has increased the portion of secured short term borrowings that represents lower interest rate than unsecured borrowings. So, the company can save on interest rates with secured loans.

Table 2: Long Term Borrowings:

Particulars	2019-20 (Rs.)	2020-21 (Rs.)	Increase/Decrease (Rs.)	Increase/Decrease (In %)
Secured Term Loans from banks- -Axis Bank Car Loan A/c	13,470	13,470	0	0
Unsecured other Loans and Advances- -UGRO Capital Ltd				
- Yes Bank	-	14,36,290	14,36,290	0
- Axis Bank Ltd	-	11,33,197	11,33,197	0
- HDFC Bank	-	10,58,320	10,58,320	0
Ltd	-	8,44,449	8,44,449	0
- RBL Bank	-	6,28,702	6,28,702	0
- ICICI Bank	-	4,23,984	4,23,984	0

V. Interpretation:

The above graph shows the long term borrowings of Diamond Carbide India Private Limited. It includes both secured and unsecured loans and advances from different banks and financial institutions. During the year 2020-21, the company has repaid the portion of secured loans and borrowed unsecured loans and advances from different institutions like Yes Bank, Axis Bank, etc.

As it is a newly established company, its accounting policy and practice is to finance its growth and expansion projects. Because, it requires no collateral and the company can take multipurpose loan. The long term borrowings help the company to finance their growth and expansion projects and it has cost benefit also. So, the company has borrowed loans from different financial institutions for different purposes like business expansion, business power plan, etc. that are repayable by the company by way of EMI's.

VI. Suggestions:

We suggest the company to take measures to reduce the outside borrowings, because it increases the finance cost. The company should use updated technologies to reduce the cost of marketing and distribution and should improve the advertisement and sales promotion activities. It should strengthen its distribution system and should minimize the credit period granted to its customers, as it creates unnecessary pressure on the working capital of the company.

VII. Conclusion

The study of comparison of two years short term and long term borrowings of Diamond Carbide India Private Limited results indicates that the company has made proper arrangements to finance its different activities. It has increased the amount of unsecured long term borrowings to finance its growth and expansion projects. It follows EMI payment method to repay the amount of long term borrowings. The company records and classifies all the

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transactions and carries out all the activities as per the requirements of the Companies Act, 2013 by following the different accounting policies and practices. The study indicates that, the Diamond Carbide India Private Limited is earning good profit and the profit is increasing year after year. The financial position of the company is good and it is on a growth track and moving towards expansion in the coming years.

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