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Study on Ratio Analysis

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ABSTRACT

Financial ratios are an important technique of the financial analysis of a business organization. Effective financial management is the key to running a financially successful business. Ratio analysis is critical for helping you understand financial statements, for identifying trends over time, and for measuring the overall financial health of your business. Lenders and potential investors often rely on ratio analysis for making lending and investing decisions. This book aims to not only develop an understanding of the concepts of financial ratios but also to provide the students a practical insight into the application of financial ratios for decision making and control. It analyzes the financial statements of corporate enterprises in India in diverse sectors with the help of financial ratios in order to facilitate the learning process.

KEYWORDS: *Efficiency, financial analysis, financial performance, financial ratios, financial statements, liquidity, market performance, profitability, solvency*

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INTRODUCTION

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency and profitability by comparing information containing in its financial statements. It is a technique of analyzing the financial statement of industrial concerns. Now a days this technique is sophisticated and commonly used in business concerns.

Ratio analysis is one of the most powerful tools interpreting the health of the firm. Ratios are proved as the basic instrument in the control process and act as backbone in schemes of the business forecast.

CLASSIFICATION OF RATIOS

Ratios can be classified into different categories depending upon the basis of classification.

A. FUNCTIONAL CLASSIFICATION OF RATIOS

Functional ratios

1. Liquidity ratios
   a) Current Ratio
   b) Quick Ratio
2. Leverage ratios
   a) Debt-equity ratio
   b) Current asset to proprietor's fund ratio

B. PROFITABILITY RATIOS

1. Gross Profit Ratio
2. Operating Profit Ratio
3. Return On Investment

C. ACTIVITY RATIOS

1. Inventory Turnover Ratio
2. Asset Turnover Ratio:
   a) Fixed Asset Turnover Ratio
   b) Current Asset Turnover Ratio
3. Working Capital Turnover Ratio

DEFINITION:

Ratio analysis is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined.

INDUSTRY PROFILE

The history of the cement industry in India dates back to the 1889 when a Kolkata-based company started manufacturing cement from Argillaceous. But the industry started getting the organized shape in the early 1900s. In 1914, India Cement Company Ltd was established in Porbandar with a capacity of 10,000 tons and production of 1000 installed. The World War I gave the first initial thrust to the cement industry in India and the industry started growing at a fast rate in terms of production, manufacturing units, and installed capacity. This stage was referred to as the Nascent Stage of Indian Cement Company. In 1927, Concrete Association of India was set up to create public awareness on the utility of cement as well as to propagate cement consumption.

The cement industry in India saw the price and distribution control system in the year1956, established to ensure fair price model for consumers as well as manufacturers. Later in1977, government authorized new manufacturing units (as well as existing units going for capacity enhancement) to put a higher price tag for their products. A couple of years later, government introduced a three-tier pricing system with different pricing on cement produced in high, medium and low-cost plants.

COMPANY PROFILE

Company name: Bharathi Cement co. pvt ltd.
Industry: Manufacturing
Established: 2009
Subsidiary: Vicat group
Director: Y. S. Bharathi Jacques Marie Merceron Vicat
Area served: India wide
Founded: Sakshi telugu daily & TV
Products: Cement (OPC, PPC, PSC, WHITE)
Capacity: 2.5million tons per annum
Website: www.bharathicement.com

NEED OF THE STUDY

The study is undertaken to know the liquidity, solvency, profitability and turnover position of the Bharathi cement.

RESEARCH METHODOLOGY

The study is based on secondary data collected through the company websites and annual reports of the company.
Website: www.bharathicement.com

TOOLS AND TECHNIQUES

- Liquidity ratios
- Profitability ratios
- Activity ratios
- Leverage ratios
- Bar charts

LIMITATIONS OF THE STUDY

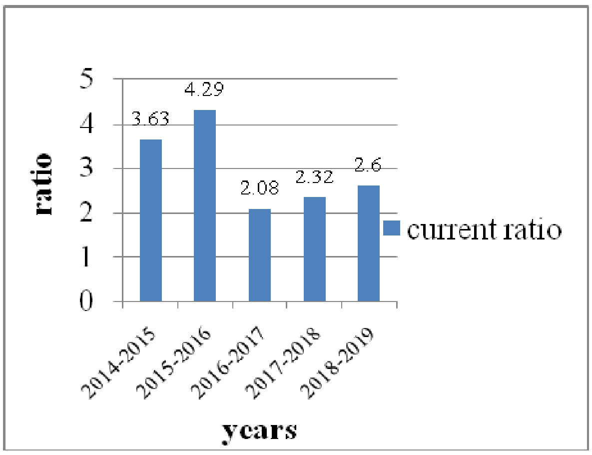
- The study is confined to bharathi cement co. pvt.ltd.
- The study is limited for a period of five years i.e., 2014-15 to2018-19.

DATA ANALYSIS AND INTERPREATAON

LIQUIDITY RATIOS

1. Current Ratio:

Years	current assets	current liabilities	current ratio
2014-15	31,31,12,005	8,62,29,274	3.63
2015-16	34,31,23,264	7,99,38,108	4.29
2016-17	27,72,03,371	13,32,80,414	2.08
2017-18	30,19,24,932	13,00,61,660	2.32
2018-19	33,73,37,265	12,96,20,400	2.60

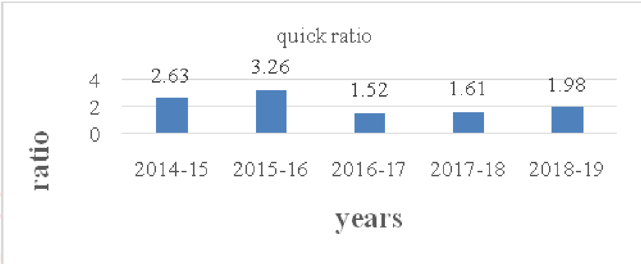


INTERPRETATION

From the above graph shows that current ratio of the company gradually fluctuating i.e., 3.63, 4.29, 2.08, 2.32 and 2.6. The standard ratio of the company must be 2: 1. It shows that the current ratio of the company is above the standard ratio. So it is considered as satisfactory of the company.

2. Quick Ratio (or) Acid Test Ratio:

Years	Quick assets (Rs. In crores)	Current Liabilities (Rs. In crores)	Quick ratio
2014-15	22,68,18,755	8,62,29,274	2.63
2015-16	26,02,49,648	7,99,38,108	3.26
2016-17	20,28,65,132	13,32,80,414	1.52
2017-18	20,96,84,118	13,00,61,660	1.61
2018-19	25,69,85,179	12,96,20,400	1.98



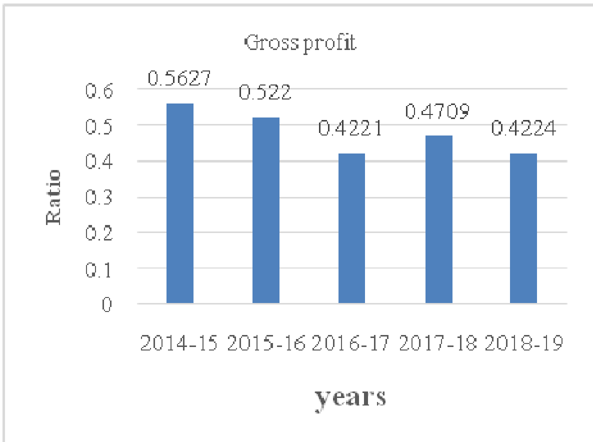
INTERPRETATION

From the above graph, the quick ratio 2.63, 3.26, 1.52, 1.61, 1.98. Here the company quick ratio is high in 2015-16.Here the company's quick assets are sufficient to meet its immediate payments in all years. so it is satisfactory.

PROFITABILIY RATIOS

A. Gross profit Ratio:

Years	Gross profit (Rs. In crores)	Net sales (Rs. in crores)	Gross profit ratio
2014-15	52,98,75,083	94,15,69,646	0.5627
2015-16	52,14,40,734	99,88,39,169	0.5220
2016-17	34,02,01,920	80,96,78,391	0.4201
2017-18	52,36,59,573	111,18,31,603	0.4709
2018-19	47,33,51,282	112,03,59,310	0.4224

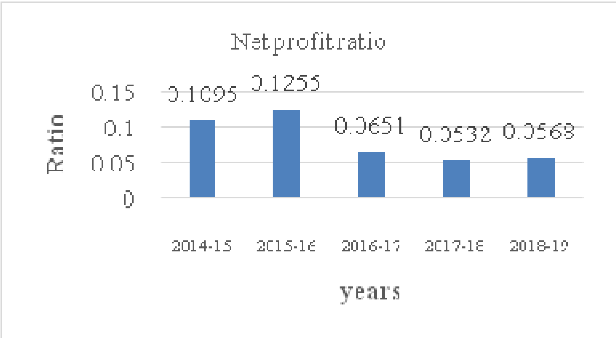


INTERPRETATION

The above graph shows that gross profit ratios are 0.5627, 0.5220, 0.4201, 0.4709, and 0.4224. Here the gross profit ratio is high in 2014-15.Here the company maintains a good gross profit ratio. It indicates that a company can make a reasonable profit on sales. So it is satisfactory.

B. Net profit ratio:

Years	Net profit	Net sales	Net profit ratio
2014-15	10,31,12,094	94,15,69,646	0.1095
2015-16	12,54,04,766	99,88,39,169	0.1255
2016-17	5,27,40,065	80,96,78,391	0.0651
2017-18	5,91,98,440	111,18,31,603	0.0532
2018-19	6,37,23,445	112,03,59,310	0.0568



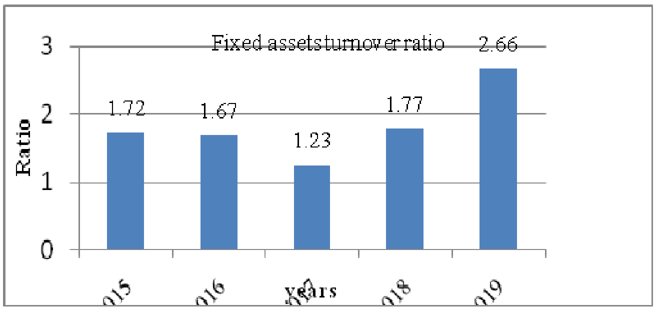
INTERPRETATION

From the above graph shows that the net profit ratios are 0.1025, 0.1255, 0.0651, 0.0532, 0.0568.Net profit ratio gradually decreasing from the year 2016-17. It indicates that a company uses ineffective cost structure. Hence this indicates the company's profitability position is not so good.

ACTIVITY RATIOS

A. Fixed assets turnover ratio:

Years	Net sales (Rs. in crores)	Fixed Assets (Rs. in crores)	Ratio
2014-15	94,15,69,646	54,67,96,293	1.72
2015-16	99,88,39,169	59,91,38,795	1.67
2016-17	80,96,78,391	65,84,21,983	1.23
2017-18	111,18,31,603	62,84,90,919	1.77
2018-19	112,03,59,310	42,08,16,860	2.66

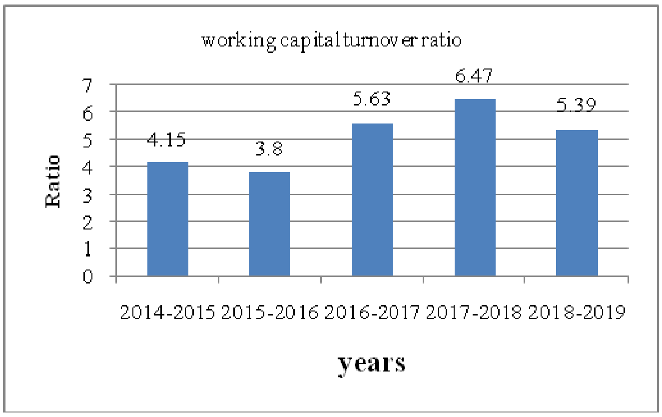


INTERPRETATION

From the above graph shows that the fixed asset Turnover ratios are 1.72, 1.67, 1.23, 1.77, 2.66. The fixed asset turnover ratio is high in the year 2018-19 i.e., 2.66. It indicates that a company has effectively used investments in fixed assets to generate sales and it is low in the year 2016-17 it indicates that a company does not effectively used fixed assets.

B. Working capital turnover ratio:

Years	Net sales (Rs. in crores)	Working capital (Rs. in crores)	Ratio
2014-15	94,15,69,646	22,68,82,731	4.15
2015-16	99,88,39,169	26,31,85,156	3.80
2016-17	80,96,78,391	14,39,22,957	5.63
2017-18	11,118,31,603	17,18,63,272	6.47
2018-19	1,120,359,310	207,870,865	5.39



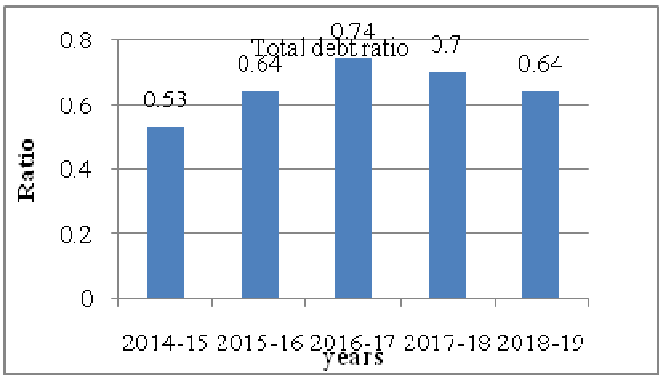
INTERPRETATION

From the above graph shows that the working capital turnover ratio in the year 2014-2015 is 4.15.But it is growing year by year up to 2017-2018. But in 2018-2019 the working capital turnover ratio decreased to 5.39.This ratio indicates that a company invests in too many accounts receivable and inventory assets to support its sales, which could eventually lead to an excessive amount of bad debts.

LEVERAGE RATIOS

A. Total debt ratio:

Years	Total debt (Rs. in crores)	Total assets (Rs. in crores)	Total debt ratio
2014-15	41,18,56,449	78,39,02,491	0.53
2015-16	56,82,08,088	88,82,01,200	0.64
2016-17	58,08,93,778	78,40,02,435	0.74
2017-18	57,24,44,654	81,28,85,375	0.70
2018-19	39,57,53,183	61,72,40,000	0.64

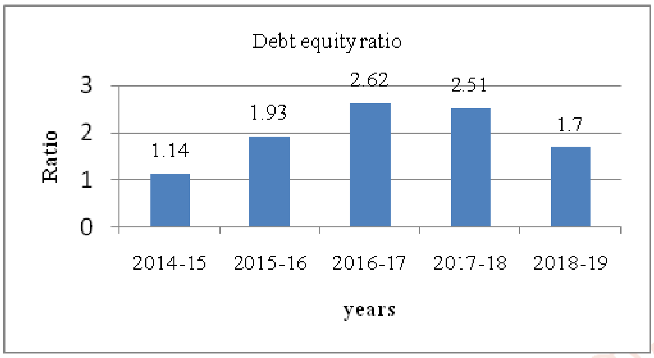


INTERPRETATION

The above graph shows that the Total debt ratios are 0.53, 0.64, 0.74, 0.7, 0.64.Here the debt ratio is less in2014-15. It shows a company lower proportion of debt when compared to all the years. In 2016-17 the debt ratio is high it indicates that higher percentage of the assets can be claimed by the creditors. It is a high risk for the company.

B. Debt equity ratio:

Years	Total debt (Rs. in crores)	Equity (Rs. in crores)	Debt equity ratio
2014-15	411,856,449	362,416,111	1.14
2015-16	568,208,088	294,115,863	1.93
2016-17	580,893,778	221,451,162	2.62
2017-18	572,444,654	227,909,537	2.51
2018-19	395,7536,183	232,934,542	1.70



INTERPRETATION

The above graph shows that the Debt equity ratios are 1.14, 1.93, 2.62, 2.51, 1.70.In 2014-15 debt equity ratio is less it shows the company is able to meet its debt obligations. Here debt equity ratio is high so that company may not be able to generate enough cash to satisfy its debt obligations.

FINDINGS

- The current ratio of the company is above the standard ratio in all years. So it is considered as satisfactory of the company. It indicates current assets are sufficient to meet its current liabilities.
- The changes in quick ratio is due to changes in loans and advances .Quick ratio is high in the ratio 2015-16 and it is low in the year 2016-17.During the study period the company's quick assets are sufficient to meet its immediate payments. This is satisfactory.
- The net profit ratio is highest in the year 2015-16 and other years are decreasing from the year 2016-17. It indicates that a company uses ineffective cost structure.
- The debtor's turnover ratio was highest during the years 2018-19 is 11.45 and during the year 2014-15 the ratio 7.76 that is the lowest one. The debtors turnover ratio has increased year by year.
- Fixed assets turnover ratio is in good position. It has observed that from the past 3 years, the ratio of sales to fixed assets is increases.
- Working capital turnover ratio is decreased in the year 2018-19 is 5.39.it indicates inefficient utilization of working capital during the period as compared to the past 2 years.
- The total debt ratio of the company is high in 2016-17. It shows that higher percentage of assets can be claimed by the creditors.

SUGGESTIONS

- To improve the liquidity position of the company, it should maintain the excessive current assets.
- The net profit of the company are continuously decreasing in the nature. So there is a need to raise the profits by increasing the sales.
- The management must follow less time for debtors collection with normal investment.
- The company shall reduce its selling and distribution expenses which lead to increase the profitability of the company.
- The debtor's turnover ratio was too high due to increased sales, Hence the company is suggested to take precautions to avoid bad debts.

CONCLUSION

From the study it is identified that the company financial position is good i.e., short term position of the company is good as it is achieved it standard norms that company financial performance is satisfactory as well. The company is capable of reducing the liabilities by increasing its sales. And the company should take necessary steps in order to improve the liquidity and profitability position.

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