

PROFITABILITY AND CONSISTENCY OF CERAMICS INDUSTRY- A FINANCIAL AND STATISTICAL ANALYSIS OF SELECTED CERAMIC COMPANIES OF INDIA.

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ABSTRACT

Performance evaluation of ceramic industry of india and to test its financial soundness. The main aim is achieved through ratio analysis of selected ceramic (Somany,Pokarna,Nitco, Kajaria and Orient Tiles companies in india. The financial performance of this industry is measured in terms of profitability, solvency, efficiency and liquidity analysis and to test the financial soundness, Multivariate Discriminate Analysis (MDA) is used. The necessary data has been obtained from the audited annual report of the selected companies.

Keywords : Ratio Analysis, Financial Dist

1.INTRODUCTION

CERAMIC industry of India is a booming sector and the growth potential of both domestic and foreign market indicates it may become one of the big foreign currency earners for the country. Now it's time to measure and analyze the performance of industry. But such kind analysis has not been done on this ceramic sector before. So, this gap of analysis we have tried to evaluate and interpret the performance of selected Five ceramic companies for the period of 2006-07 to 2015-2017.evaluation of a company is usually related to how well a company can use it assets , share holder equity and liability, revenue and expenses. Financial ratio analysis is one of the best tools of performance evaluation of any company.

HISTORICAL DEVELOPMENT AND GROWTH OF CERAMIC INDUSTRY IN INDIA

The economic history of pre-dynastic periods through the ages in the world shows that except the ceramic industry, probably there was no other industry which has been of great importance to human civilization right from the human generation to the modern times. In spite of non availability of chronological and authentic documents on the subject, efforts have been made in this chapter to put up the development of this industry in logical order as far as possible on the basis of evidences available.

The ceramists and ceramic industrialists for the first time felt the need of porcelain which was replacement to metallic utensils and more economical,sophisticated and neat and clean. At that time in German porcelain articles were replacing metal ones in the kitchen due to metal shortage.

There was a good deal of electric development world being done in the country which created a big demand for the electric goods specially for insulators. Ceramic industry was thus considered to be a key industry for the economic development of the country.

Current status of the industry :

Ceramic Tiles are manufactured in both the large and small scale sectors with wide variance in type, size, quality and standard. The industry is capital intensive in nature. The installed capacity of ceramic tiles in India is estimated to be about 45 million sqm. This capacity is mostly concentrated in Gujarat, Haryana, Rajasthan, Tamil Nadu and Andhra Pradesh, where raw materials are available locally.

Factors responsible for increased demand of Ceramic Tile ;

1. New construction to meet housing shortage
2. Renovation of old buildings
3. Increase in number of high rise buildings
4. Tourism/Hotel industry growth.
5. Use of ceramic tiles as furnishing/construction material in these shops, show rooms, temples, nursing homes etc.

More and more customers are preferring ceramic tiles over mosaic tiles due to large variety and designs available in ceramic tiles. Granite and marble tiles are limited to a small segment of the market. Wall paper/Vinyl flooring are not competing products.

Raw materials:

China clay, Ball clay, Calcite, Feldspar and Quartz are the major raw materials and minerals used. The mines producing most of the raw materials are located in Gujarat, Rajasthan, Tamil Nadu and Andhra Pradesh. Not surprisingly more than 50% of the capacity is situated in these three states.

Fuel and energy:

Energy is the single largest head of expenditure in the industry. All the steps in the Manufacturing process involve good amount of energy consumption.

Export market:

The world market of ceramic tile is estimated to be more than Rs 55,000 crore, where the Italians are the leaders with a share of 24%, followed by Spain, China and Brazil. India has the potential to carve a niche for itself in the export market. Indian tiles are competitive to those produced by Italy and Spain..

2. OBJECTIVES OF THE STUDY

The main objective of this study is to find out the ceramic companies profitability and consistency that are used for measuring the financial performance.

- a) To measure the performance of companies on the basis of their profitability.
- b) To measure the performance on the basis of their consistency.

c) To give ranking to the selected sample companies according to their profitability and consistency.

LIQUIDITY ANALYSIS

Liquidity means the ability of a firm to meet its current obligations. If a firm has sufficient liquid assets to pay off its current liabilities then it can be said that the liquidity position of the firm is good. Liquidity is a prerequisite for the very survival of a firm. The liquidity ratios measure the ability of a firm to meet its short-term obligation and also reflect its short-term financial strength/solvency of a firm.

The major liquidity ratios are:

1. Current Ratio.
2. Quick Ratio.
3. Cash & Bank Balance to Net Working Capital

1. Current ratio (CR) :

It is the ratio of total current assets to total current liabilities.

CR is the basic measure of judging the ability of a firm to pay off its current obligations out of its short-term resources. The higher the CR, the larger is the amount of rupees available per rupee of short-term obligation and accordingly, the greater is the feeling of security.

That the CR in NL registered a fluctuating trend during the period under study. It ranged between 1.34 in 1991-92 and 2.65 in 1993-94. On an average, the CR in SCL was 1.79 and its standard deviation (SD) and co-efficient of variation (CV) were 0.42 and 23.26% respectively. The CR in KCL also recorded a mixed trend during the study period. It fluctuated between 1.16 in 1994-95 and 2.05 in 1997-98.

The mean, SD and CV were 1.53, 0.28 and 18.25% respectively. The CR in OCL witnessed a fluctuating trend during the study period. It ranged between 1.33 in 1995-96 and 2.45 in 1993-94. On an average, it was 1.99 and its SD and CV were 0.31 and 15.53% respectively.

The CR in OCL noticed a fluctuating trend during study period. It ranged between 1.20 in 1992-93 and 2.11 in 1990-91. The average CR of the company was 1.65 and its SD and CV were 0.26 and 15.15% respectively. The CR in SCL recorded a mixed trend during the period under study. It fluctuated between 0.78 in 1995-96 and 1.74 in 1994-95. The mean, SD and CV were 1.16, 0.27 and 22.92% respectively. The CR in SCL was the highest in 1997-98 when it was 2.58 and the lowest in 1999-2000 when it was 0.46. The mean of the ratios was 1.71 and SD and CV were 0.69 and 40.30% respectively. The CR in NL registered a mixed trend during the period under study. It fluctuated between 2.19 in 1999-2000 and 3.92 in 1994-95. On an average, the CR in NL was 2.93 and its SD and CV were 0.56 and 19.22% respectively.

The CR in NL recorded a consistent trend during the study period. It ranged between 3.25 in 1991-92 and 5.11 in 1995-96. Its mean, SD and CV were 4.11, 0.66 and 15.99% respectively. The CR in NL recorded a

mixed trend during the study period. The ratio was highest in 1996-97 when it was 3.15 and the lowest in 1991-92 when it was 1.30. The mean of the ratios was 1.98 and SD and CV were 0.66 and 33.15% respectively. The CR in SCL recorded a fluctuating trend during the study period. It ranged between 1.45 in 1990-91 and 5.55 in 1999-2000. The mean was 4.00 and SD and CV were 1.37 and 34.31% respectively.

2. Quick Ratio (QR);

QR is the ratio between quick assets and quick liabilities and is calculated by dividing the quick assets by quick liabilities.

Thus, Companies the mean CR varies between 1 and 1.5

It measures the firm's ability to convert its current assets quickly into cash in order to meet its current liabilities. Quick ratio is a stricter test of liquidity than the current ratio as it gives no consideration to inventory which may be slow moving. The ratio places more emphasis on immediate conversion of assets into cash than does the current ratio. The conventional ratio is 1:1, i.e., every rupee of short term liabilities must be backed by equivalent liquid assets.

That the QR of SCL reflected a mixed trend during the study period. It ranged between 0.81 in 1999-2000 and 2.09 in 1993-94. On an average, the QR of SCL was 1.22. The SD and CV were 0.44 and 35.88% respectively. The QR in OCL also showed a fluctuating trend during the study period ranging from 0.66 in 1994-95 to 1.31 in 1997-98. The mean, SD and CV were 0.93, 0.22 and 23.66% respectively. Again the QR in KCL witnessed a mixed trend during the period under study. It ranged between 0.72 in 1995-96 and 1.59 in 1993-94. On an average, the QR in KCL was 1.11 while the SD and CV were 0.24 and 21.43% respectively. PL also witnessed an up and down trend of the QR during the period under observation. The ratio in KCL ranged between 0.54 in 1991-92 to 4.09 in 1990-91. The mean, SD and CV were 1.80, 0.99 and 55.26% respectively. The QR in PL witnessed a fluctuating trend during the study period. It ranged between 0.64 in 1992-93 and 1.53 in 1990-91. The mean, SD and CV of QR were 1.05, 0.22 and 21.32% respectively. The QR in KCL showed a mixed trend during the period under observation. It ranged between 0.26 in 1995-96 and 0.66 in 1991-92. On an average, the QR in KCL was 0.44. Its SD and CV were 0.12 and 26.76% respectively. The QR in NL showed a mixed trend during the study period. It ranged between 1.15 in 1999-2000 and 1.93 in 1993-94. On an average, it was 1.53, The SD and CV were 0.26 and 17.31% respectively. The QR in KCL also showed a fluctuating trend during the study period. It ranged between 0.59 in 1998-99 and 4.23 in 1995-96. On an average, the QR in KCL was 2.03, its SD and CV were 1.23 and 60.66% respectively. Again the QR in NL also witnessed

an up and down trend during the study period. The ratio ranged between 0.87 in 1991-92 and 2.70 in 1998-1999. The mean, SD and CV were 1.83, 0.54 and 29.49% respectively.

3. Cash and Bank to Net Working Capital (CBWC):

This ratio indicates the portion of Cash and Bank balance to Net Working Capital. Working capital represents the excess of current assets over current liabilities. Working capital is the lifeblood of the business and helps to continue the operating cycle of the Business. Working capital is very important to carrying out the routine or regular business operations. All the current assets are important components of working capital. Cash and Bank Balances are the most liquid current assets. Every business firm always to retain a certain balance of Cash and Bank to maintain its satisfactory level of Liquidity. In fact, it is an indicator of immediate debt paying capacity of the firm. The higher the ratio, the better is the firm's liquidity. That the CBWC of SCL reflected a fluctuating trend during the study period. It ranged between 3.29 in 1991-92 and 17.53 in 1997-98. On an average, the ratio was 7.64. Its SD and CV were 3.97 and 51.92% respectively. OCL showed a mixed trend during the period under study. The Ratio was lowest in 1994-95 when it was 0.51 and highest in 1998-99 when it was 10.52. The mean of the ratios was 5.18 and SD and CV were 3.63 and 69.99% respectively. Again the CBWC of NL witnessed a fluctuating trend during the period under study.

It ranged between 1.03 in 1995-96 and 23.74 in 1998-99. On an average, it was 15.43 while the SD and CV were 7.30 and 47.28% respectively. KCL also witnessed an up and down trend during the period of study. The ratio was lowest in 1996-97 when it was 3.82 and highest in 1998-99 when it was 32.95. The mean of the ratios was 13.95 and SD and CV were 8.73 and 62.57% respectively. PL reflected a fluctuating trend during the entire period under study. It ranged between 4.87 in 1992-93 and 26.21 in 1990-91. The average ratio was 11.39 and SD and CV were 6.35 and 55.72% respectively. ACL also witnessed an up and down trend during the study period. The highest ratio was in 1997-98 when it was 27.65 and least in 1994-95 when it was 0.39. On an average, it was 8.79. The SD and CV were 9.01 and 102.50% respectively. PL showed a mixed trend during the period under study. The ratio ranged between 2.43 in 1995 and 18.99 in 1994-95.

That SCL ranked first according to both the average CR and average QR and third according to the average CBWC, had a combined score of 5 in the composite ranking. Similarly, SCL which ranked first according to average CBWC and second according to average CR and average QR, had a combined score of 5.

This method of ranking on the basis of the mean value of the ratios enables us to make a comparative analysis of the liquidity position of the companies under study over a period of time. But this method, however, cannot give us any idea about the consistency of the liquidity position of the companies under

study. Hence for measuring the consistency of the liquidity position of the companies another similar process of ranking of the thirteen companies under study based on Coefficient of Variation (CV) of three liquidity ratios have been undertaken in table 3.5. Here also ultimate ranking based on the sum of scores of each company's separate individual ranking under the three criteria has been done on the basis of the principle that lower the point scored the more consistent is the liquidity position and vice versa.

SUGGESTIONS

Comparing all the profitability ratios, it is inferred that out of 7 ratios, KCL and SCL have got same uniformity has got the highest performance in case of net profit and earnings per share. KCL has got maximum operating profit and minimum operating expenses ratios. Other companies have not any uniformity in terms of the selected profitability ratios.

By comparing the Liquidity ratio, No company is maintaining uniformity. Considering short term liquidity, MCL and KCL have performed well and by considering long term liquidity PL and Regency Ceramics have performed well.

Comparing the efficiency ratios it is inferred that Asian Granite has got uniformity in terms of Stock Turnover ratio & fixed assets turnover ratio. In these two ratios, it has got maximum performance. OCL also have better performance in terms of Debt Collection period and Working capital Turnover ratio.

Consolidating all the three broad classifications it is inferred that PL and MCL were better performed companies compared to other selected companies.

SUGGESTIONS

- Few companies in the selected ceramics company performed well.
- But OCL, NL, Regency Ceramics have to reduce the Manufacturing, selling and Administration expenses, as this boost the earnings of the company.
- PL has to maintain the quick recovery from debtors as this will play as a fuel in the business vehicle and also to avoid the unnecessary Bad debts. NL has to take steps to make payment to creditors in time as it affects goodwill of the company and also lose the good image and reputation among the minds of the suppliers.

CONCLUSION

Based on the analysis and its subsequent findings it is concluded that the KCL company performed better followed by OCL and KCL companies. In terms of effective utilization of assets OCL, and KCL ranked better respectively.

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