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A STUDY ON FINANCIAL ANALYSIS OF RAMCO CEMENTS PVT LTD

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Abstract

In this study entitled “A study on the financial Analysis of RAMCO CEMENTS PVT LTD” is to analyze for the last 5 years. The study is based on the financial position of the firm by using Ratio analysis, Trend analysis and Comparative statements. Financial statements help the management to analyze profit, solvency, liquidity and efficiency etc. this analysis will give the exact picture of the company. Finance is rightly termed as the science of money, as it is the life blood of business. Finance is vital for the even running of the business. The process of recognizing the financial strengths and weaknesses of the firm by properly-establishing relationship between the items of the Balance Sheet and the Profit and Loss account.

1. INTRODUCTION:

Finance is rightly termed as the science of money, as it is the life blood of business. Finance is vital for the even running of the business. The process of recognizing the financial strengths and weaknesses of the firm by properly-establishing relationship between the items of the Balance Sheet and the Profit and Loss account. There are various methods or techniques are used in examining financial schedule of change in working capital flow, Cost Volume Profit Analysis and Ratio Analysis.

Keywords: Data Analysis and Interpretation of Ratio Analysis-Trend Analysis and Chi-Square Test.

1.1 Devices of Financial Analysis:

There are many methods for determining the financial analysis of the company, as follows;

- Ratio Analysis
- Comparative Statement Analysis
- Common Size Statement Analysis
- Trend Analysis
- Chi-Square.

The following purposes are served by financial analysis:

- To measure the profitability.
- To indicate the Trend of achievements.
- Comparative position in relation to other firms
- Assess the overall financial strength
- Assess the solvency of the firm

1.2 REVIEW OF LITERATURE:

1. Topic name: Financial analysis of companies in Eriteria (profitability and efficiency focus)
Author: Dr. V. Ganfadhar (the management accountant).
Year: November 1998.
2. Topic name: Intercompany profitability analysis of Indian General Insurance Industry.
Author name: Debasish Sur.
Year: July 1999
3. Topic name: financial performance of Indian Tea Industry
Author name: Sanjib Roy
Year: May 1998

2. RESEARCH METHODOLOGY:

This chapter deals with the various process of the metamorphosis of the research idea into research action. The adopted methodology for the study is the various tools, which essential to analyze critical financial position of the firm.

2.1 RESEARCH DESIGN:

This is a complete master plan of the research study to be commenced. Simply stated, this frame work, a blue print for the research study, which guides the collection and analysis of the data. The reputation of the research lies in the RAMCO CEMENTS PVT LTD that it makes a statement of what is to be done in order to achieve the research objectives and how it is to be done. In this study analytical research design is used.

2.2 **ANALYTICAL RESEARCH DESIGN:**

The study of data involves classifying the relations of calculated information to the research problem in hand. Here, the researcher makes use of different tools for analyzing data and starting a association between the information gathered and the research problem.

2.3 DATA COLLECTION:

The information collection begins after the researcher, problem has been well-defined and research design/plan chalked out. While determining the method of data collection to be used for the study, the investigator should keep in mind the kinds of data collection.

Types of Data Collection

1. Primary data
2. Secondary data

2.4 OBJECTIVE OF THE STUDY:

Primary objective:

The first main aim of the study is to evaluate the financial performance of RAMCO CEMENTS PVT LTD.

Secondary objectives:

- To trace the history and profile of the RAMCO CEMENTS PVT LTD.
- To analyze the consumption of numerous assets during the period.
- To know the overall profitability position of RAMCO CEMENTS PVT LTD.
- To compare the balance sheet and income statements of the company.
- To find out the trend of financial analysis of past five year using trend analysis.
- To offer the suggestions to improve the company's performance.

3. SCOPE OF THE STUDY:

In this study entitled "A study on the financial Analysis of RAMCO CEMENTS PVT LTD" is to analyze for the last 5 years. The study is based on the financial position of the firm by using Ratio analysis, Trend analysis and Comparative statements. Financial statements help the management to analyze profit, solvency, liquidity and efficiency etc. this analysis will give the exact picture of the company. These studies will also help the management to take managerial decisions. These studies help the management to understand the new possibilities. The study helps us to conduct researches in financial areas and it also helps us for taking financial Decisions in Personal Life.

4. LIMITATION OF THE STUDY:

- The study based on historical data, so it cannot be reliable.
- The study has been carried out for the period of five years and it is not sufficient enough to analyze the entire aspect of the company.
- The result of the study cannot be generalized for other organization and we cannot predict future financial position of the company based on the study Change in the book keeping procedures by a firm may often mislead the financial analysis.
- The changes in the price level are not considered.

4.1 DATA ANALYSIS AND INTERPRETATION OF RATIO ANALYSIS:

Current Ratio:

This ratio can be defined as "the relationship between current assets and current liabilities". This is the most widely used ratio. It shows the firm's / capability to cover its current liabilities with its current assets.

Interpretation:

Generally the ratio of 2:1 is considered for a concern, i.e., the current assets must be twice of the current liabilities. If these current assets are the two times of the current liabilities, there will be no opposing effect on business operation when the payment of the current liabilities is made. From the above table analysis, we can identify that the year 2011-12 only have the current ratio above the standard norms i.e. 2.09%. The remaining all the years the current ratio is below 2:1

4.2 Quick Ratio:

Quick ratio can be defined as the relationship between quick / liquid assets and current or liquid liabilities. If the asset can be converted into cash with a short period without a loss of value it is said to be liquid. It calculates the firm's capacity to pay off the current duties immediately.

Quick Ratio = Liquid Assets / Current liabilities

Interpretation:

The ratio 1:1 is measured ideal ratio for a concern because it is good to keep the liquid assets at least equal to the liquid liabilities at all items. Here, from 2009 -
13 every year the ratios are satisfying the standard norms of quick ratio I.e around 1. And it is good for company.

4.3 Absolute Liquid Ratio:

Even though receivables are generally more liquid than inventories, there may be debts having doubt concerning their real stability in time. This ratio is also called as super quick ratio. This ratio reflects only the absolute liquidity obtainable with the firm. If the super liquid assets are too much relative to the current liabilities then it may affect the profitability of the firm.

Absolute Liquidity Ratio = Absolute Liquidity Asset / Current Liabilities

Interpretation:

The desirable norm for the ratio is the1:2 i.e., Re 1 value of absolute liquid assets are adequate for Rs. 2 value of current liabilities. Even though the ratio gives a more meaningful measure of liquidity, it is not much use because the idea of keeping large cash balance or near cash items has long since been disproved. Cash balance yields no return and such is barren.

Gross Profit Ratio = Gross Profit / Net Sales X 100

Interpretation:

There is no average norm for gross profit ratio and that may vary from business to business. It reflects the effectiveness with which a firm produces its products.

It is better when the ratio is higher. A lower ratio indicates unfavourable trend in the form of deduction in selling prices not accompanied by balanced decrease in cost of goods sold or increase in cost of production.

Here in the last year i.e. 2020 - 21 it increased and become positive. The ratio is 63.46. It is very good for the company.

Chart 11 Comparative Income Statements 2020-2021

Particulars	2020	2021	Increase / Decrease	% of change
Sales	110720	132148	21428	19.35
Cost of goods Sold	40664	49608	8944	21.99
Gross profit	70056	82540	12484	17.8
Net profit	16377	15321	-1056	-6.4

Source: calculated data

Interpretation:

Here the sale is increased by 19.35%. The gross profit here is increased by 17.8% and the price of goods sold are large related to last year so the company facing difficulty. Finally, Over all it is a profitable situation.

4.4 TREND ANALYSIS OF SALES:

Interpretation

Trend analysis of sales is taken here. It has yearly fluctuations. Here 2008 - 09 is taken as base year i.e. 100. Then in the very next year it increased a 22% and reached 122.07 %. Then in 2010 - 2011 and reached 175.6%. Again in 2011-12 it came up with a percentage of 231.3. Now in 2012-13 it have a sales of 276.15%

Table 13 Chi -Square Analysis Between Current Assets & Current Liabilities

H0: There is no significant relationship between current assets & current liabilities

H1: There is significant relationship between current assets & current liabilities

CHI–SQUARE FORMULA

$X^2 = \sum (O - E)^2 / E$

O – Observed value

E – Expected value

Chi -Square Analysis between Dividend & EPS

O	E	(O-E)	$(O-E)^2$	$(O-E)^2/E$
54150.91	60375.75	-6224.84	38748633	641.79
39032.40	32807.55	6224.84	38748633	1181.08
72030.09	73481.58	-1451	2106823	2228.67
41380.61	39929.11	1451.49	2106823.22	52.76
57746.41	56212.31	1534.1	2353462.81	41.86
29011.08	30545.17	-1534.1	2353462.81	77.04
82352.69	78770.06	3582.63	12835237.72	162.94
39220.20	42802.82	-3582.63	12835237.72	299.86
112519.77	109960.14	2559.63	6551705.73	59.58
57191.56	59751.18	-2559.63	6551705.73	109.64
TOTAL				**2655.22**

Source: calculated data

Table value of chi square 9.488

Calculated value of chi square 2655.22

Since the calculated value of chi square greater than its table value at 5% level {df (v) = 5-1= 4}.

Null hypothesis is rejected.
There is significant relationship between cash balance & current assets.

FINDINGS:

- The company is having satisfactory credit worthiness because the current ratio is above the normal. The Current assets have to properly maintain to bring the current ratio to the normal.
- The quick ratio was very low in the first 4 years and improved in last year. This is considered to be an improvement of the company.
- The current ratio reveals a fluctuating over these years; that means the company's ability to convert the assets into cash is fluctuated.
- The debtor's turnover ratio shows an increasing trend this is not good for company.
- The inventory turnover ratio reveals an normal position thus it is a respectable sign for the company.
- The gross profit ratio is for the year 2008 - 09 is 73.38. It decreased to 47.63 in the year 2010 - 11 but, last two years gross profit increased.
- The value of the net block and capital work in progress is fluctuating over the year. The net profit is showing an increased till 2008 - 09 to 2011 - 12. And the last year only sudden down fall. So the overall profitability position is good.

SUGGESTIONS:

The management of the firm must be made more vigilant to maintain or improve the present situation because if there is any further fall in the current ratio.

It may be serious problems for the firm.

A strict credit policy should be maintained.

Proper inventory control measures should be taken to reduce the unnecessary stock and to maintain appropriate lead time.

Company should adopt suitable policies and measures to sell the scrap and by products obtained during the production process so that it will generate additional source of revenues.

Adequate sales promotion efforts can be adopted to increase sales.

5. CONCLUSION:

This study was conducted to evaluate the financial performance analysis of RAMCO CEMENTS PVT LTD, for the period of 5 years ranging from 2009 to 2013. It helps to explore the strength and weakness of the company. Examination and explanation of financial statements show that, the present financial position of RAMCO CEMENTS PVT LTD has improved quite a lot from the previous years.

The central focus of the study was to conduct an evaluative study of the financial state of the firm by using ratio investigation, comparative financial statements, and trend analysis by taking into accounts the past years of the company's financial statements.

The study concluded that company overall financial performance is good.

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