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A STUDY ON FINANCIAL PERFORMANCE USING RATIO ANALYSIS OF SHREE CEMENT LIMITED

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ABSTRACT

The purpose of this study is to analyze the financial performance of Shree Cement Limited using Ratio Analysis. Accounting Ratios are extensively used for analyzing the financial statements. It helps the bankers, creditors, investors, shareholders etc. in acquiring enough knowledge about the profitability and financial health of the business. Accounting ratios are intended for a number of years which demonstrates the changes. In order to analyze the financial performance of Shree Cement Limited, the accounting ratios have been used. Secondary data have been used from the Published Annual Reports of the company for time period 2012-13 to 2018-19. The final result of the paper in accordance with the financial performance of Shree Cement Limited shows that the financial performance of the company should try to increase the sales volume by reducing the costs to increase the profits and improve the profitability position.

Keywords: *Accounting Ratios, Annual Reports, Cement Industry, Financial Performance.*

Introduction

Financial decision is an important decision for managers at present time. From the beginning of the company, managers have to make decisions that balance the goals of wealth acquisition as well as profit maximization. Accounting ratios are important tools for financial analysis and decision making. It expresses relationship between two variables. It helps to achieving the firm's capability using the company's financial position analysis, operational proficiency of managers and financial statement analysis. It is also useful for inter firm, intra firm and industry comparison over a period of time.

Profile of Shree Cement Limited

Shree Cement is primarily an Indian cement manufacturer. It was founded in Beawar in the Ajmer district of Rajasthan in the year 1979 and now headquartered in Kolkata, is one of the biggest cement makers in Northern India. It also produces and sells power under the name Shree Power (Captive Power Plant) and Shree Mega Power (Independent Power Plant) (Forbes India, 2017).

The company's vision is to lead in creating prosperity and happiness for all stakeholders through innovation and sustainable practices. As an organization, it spread happiness amongst everyone connected with our ecosystem and creates wealth for investors, employees, business associates and communities where we operate by experimenting and implementing new ideas for improving efficiencies and maximizing the ratio of output product to input resources.

Shri H.M. Bangur Managing Director of the Company has been awarded with the prestigious Entrepreneur Of the bearuo Award at the seventh Forbes India Leadership Awards (FILA) 2017.The awards were instituted by Forbes India magazine to recognize the outstanding contributions of CEOs entrepreneurs and business leaders who have built enterprises that have had a deep and enduring impact on the wider society. (ILA 2017 Awards span across ten categories with the nominees and winners representing diverse backgrounds - from start ups and mid-sized firms to the more mature organizations of a global scale.

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Review of Literature

According to Dr. M. Ravichandran (2016) Using various financial instruments such as profitability ratio, solvency ratio, comparative statement, etc., financial performance can be calculated. On the basis of the study, it was found that the company had enough funds to cover its debts & liabilities, the company's income statement indicates that the company's revenue increased at a good pace last year and profit also increased last year.

Prasanta Paul (2011) stated on the Financial Performance Evaluation – For the comparative analysis, some of the selected NBFCs were taken. In the report, the review of comparative financial performance takes into account five of the NBFCs listed. Different types of statistical instruments are commonly used, such as standard deviation, arithmetical mean, correlation, etc.

Sheela Christina (2011) study on Wheels India Ltd's financial results. For the analytical form of research design, the secondary data collection method is used. For the last five years, validity and reliability are tested before the analysis is carried out, where the researcher used this for study purposes.

Burange and Shruti Yamini (2008) Analyzed the Indian Cement Industry's performance-the competitive landscape. In view of the overall growth of the Indian economy by the cement industry, the experience of the boom is attributed to the expansion of investment and industrial activity in the cement sector.

Amalendu Bhunia (2010) took Analysis of the financial results of a pharmaceutical business to understand how finance management plays a crucial role in growth. The research was carried out for a period of twelve years, from 1997-98 to 2008-09.

Research Methodology

In this present study, an attempt has been made to evaluate the financial performance of Shree Cement Limited. The study is based on secondary data. Details are collected from websites, magazines and journals. The time period of study is Seven years from 2012-13 to 2018-19. Accounting tool of Ratio analysis is used to analyze the company.

Following Ratios are used for this Study.

- Current Ratio
- Quick Ratio
- Proprietary Ratio
- Debtors' Turnover Ratio
- Current Liabilities to Net worth Ratio
- Net Fixed Assets to Net worth Ratio
- Net Profit Ratio
- Return on Capital Employed

Objectives of the Study

- To identify the variability in profitability, liquidity, Solvency position in the Shree Cement Limited.
- To examine the operational competence of Shree Cement Limited.
- To offer suggestions based on findings of the study.

Limitations of the Study

- Due to the difference in accounting period, evaluation of the company may not give accurate image.
- The approach may differ on calculation of certain items and analysis and interpretation of the ratios.
- Time period of study is 7years only
- The ratio analysis deals with quantitative aspect. It totally overlooks the qualitative aspect.

Data Analysis

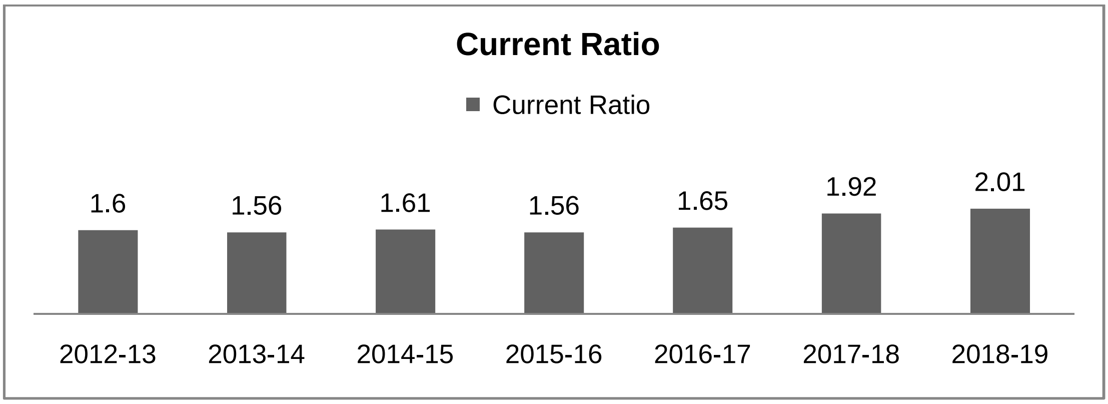
Current Ratio

The current ratio is a liquidity ratio that measures whether or not a firm has enough resources to meet its short-term obligations. It compares a firm's current assets to its current liabilities, and is expressed as follows

Current Ratio = **Current Assets** / **Current Liabilities**

Financial year	Total Current Assets (in crore)	Total Current Liabilities (in crore)	Current Ratio
2012-2013	2271.73	1417	1.60
2013-2014	2331.89	1499.27	1.56
2014-2015	2333.13	1448.61	1.61
2015-2016	1808.66	1161.70	1.56
2016-2017	3282.07	1989.01	1.65
2017-2018	5700.16	2967.16	1.92
2018-2019	3991.69	1986.66	2.01

Source: Annual Report



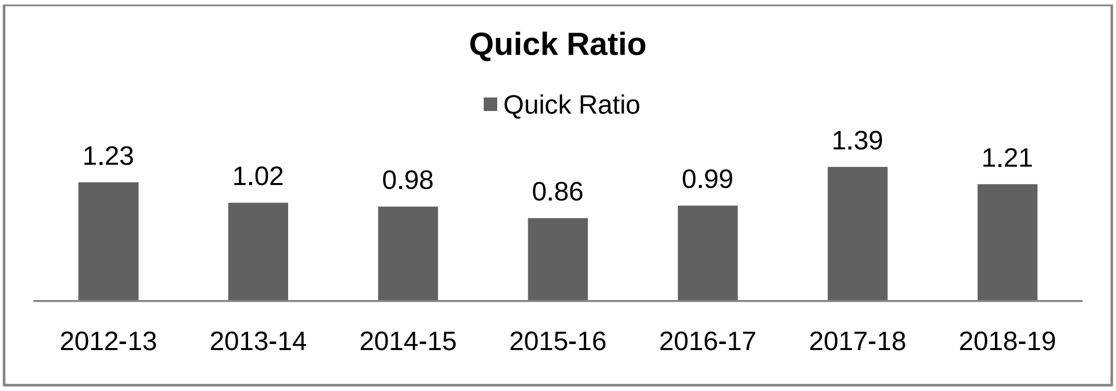
Quick Ratio

Quick Ratio refers to the proportion of highly liquid assets to current liabilities.

Current Assets - Inventories / **Current Liabilities**

Financial Year	Total Current Assets (in Crore)	Inventories	Total Current Liabilities (in Crore)	Quick Ratio
2012-2013	2271.73	530.78	1417	1.23
2013-2014	2331.89	809.78	1499.27	1.02
2014-2015	2333.13	918.86	1448.61	0.98
2015-2016	1808.66	815.19	1161.70	0.86
2016-2017	3282.07	1314.50	1989.01	0.99
2017-2018	5700.16	1569.02	2967.16	1.39
2018-2019	3991.69	1589.05	1986.66	1.21

Source: Annual Report



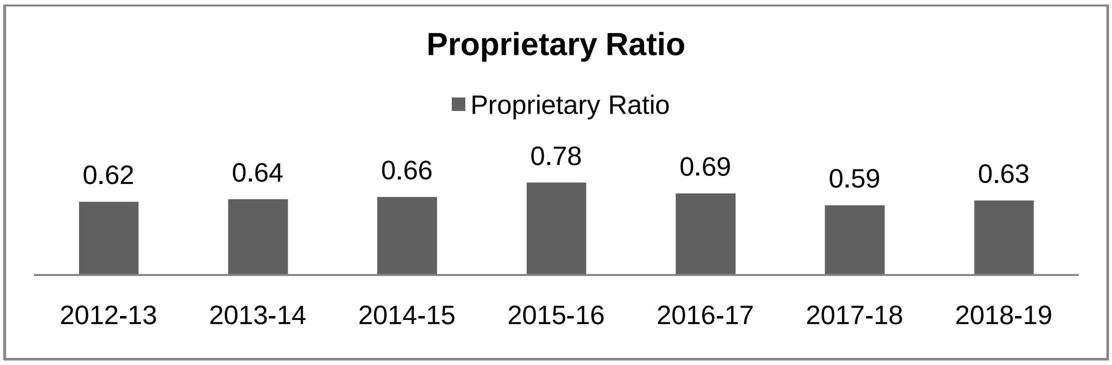
Proprietary Ratio

This ratio shows the relationship between Net Worth and Total Assets.The formula is given below.

Proprietary Ratio = $\frac{\textbf{Net Worth}}{\textbf{Total Assets}}$

Financial year	Net Worth	Total Assets	Proprietary Ratio
2012-2013	3844	6160.12	0.62
2013-2014	4711	7328.71	0.64
2014-2015	5276	7997.85	0.66
2015-2016	6846	8789.02	0.78
2016-2017	7698	11166.11	0.69
2017-2018	8897	15141.83	0.59
2018-2019	9597	15193.25	0.63

Source: Annual Report



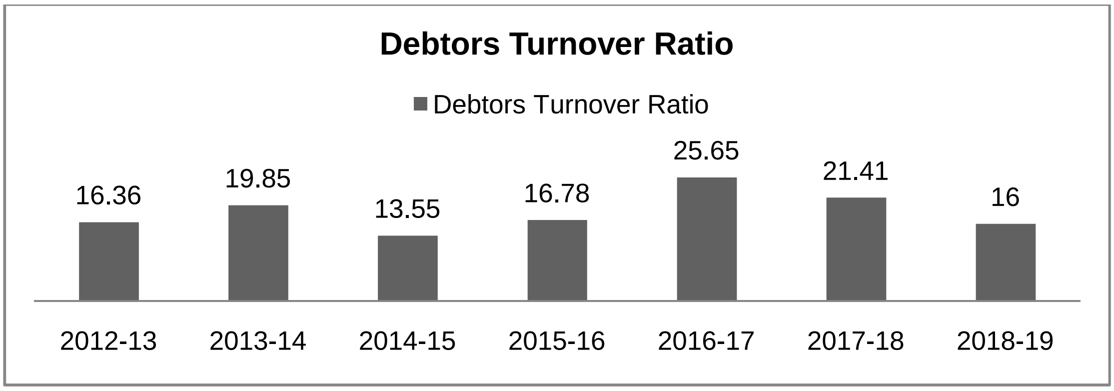
Debtor's Turnover Ratio

This ratio shows the relationship between Sales and Debtors.The formula is given below.

Debtor's Turnover Ratio = $\frac{\textbf{Sales}}{\textbf{Debtors}}$

Financial Year	Total Sales	Debtors	Debtor's Turnover Ratio (Times)
2012-2013	5590.25	314.66	16.36
2013-2014	5887.31	296.59	19.85
2014-2015	6453.57	476.39	13.55
2015-2016	5513.64	328.62	16.78
2016-2017	8594.30	335.12	25.65
2017-2018	9833.10	459.25	21.41
2018-2019	11722	732.40	16

Source: Annual Report



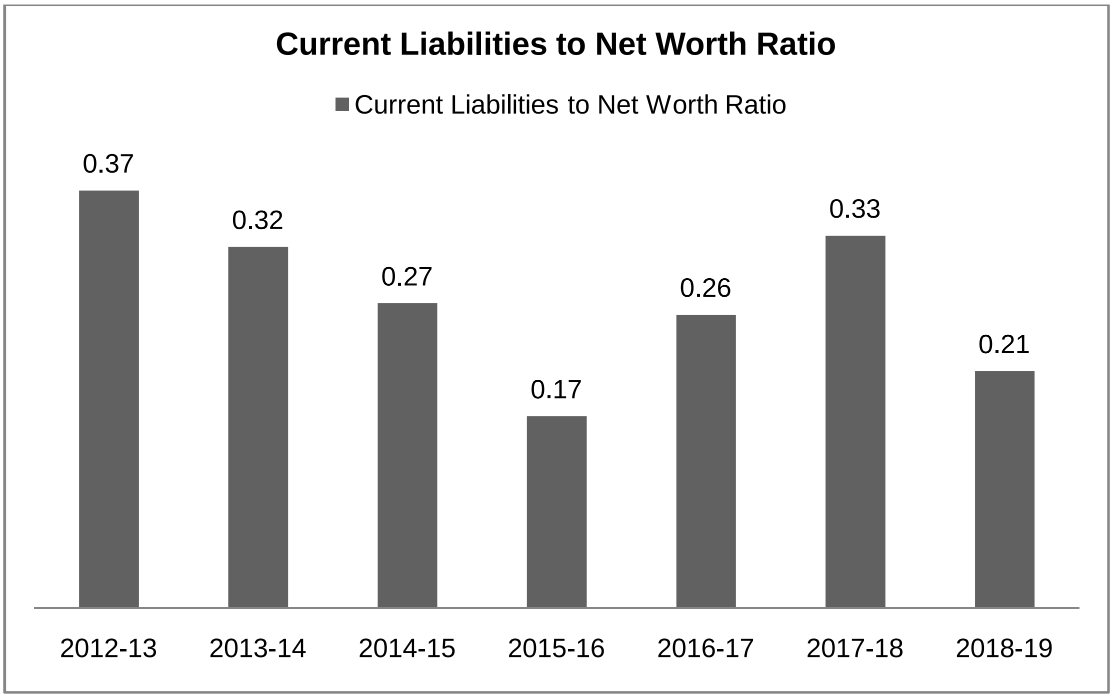
Current Liabilities to Net Worth Ratio

This ratio shows the relationship between Current Liabilities and Net Worth. The formula is given below.

Current Liabilities to Net Worth Ratio = $\frac{\textbf{Current Liabilities}}{\textbf{Net Worth}}$

Financial Year	Current Liabilities	Net Worth	Current Liabilities to Net worth Ratio
2012-2013	1417	3844	0.37
2013-2014	1499.27	4711	0.32
2014-2015	1448.61	5276	0.27
2015-2016	1161.70	6846	0.17
2016-2017	1989.01	7698	0.26
2017-2018	2967.16	8897	0.33
2018-2019	1986.66	9597	0.21

Source: Annual Report



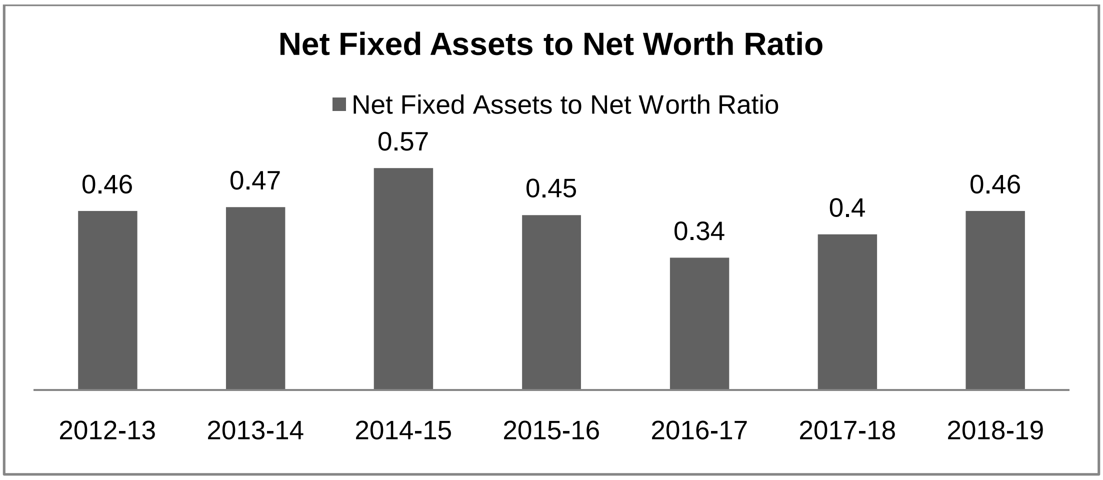
Net Fixed Assets to Net Worth Ratio

This ratio shows the relationship between Net Fixed Assets and Net Worth.The formula is given below.

Net Fixed Assets to Net Worth Ratio = $\frac{\textbf{Net Fixed Assets}}{\textbf{Net Worth}}$

Financial Year	Net Fixed Assets	Net Worth	Net Fixed Assets to Net Worth Ratio
2012-2013	1781.94	3844	0.46
2013-2014	2193.77	4711	0.47
2014-2015	3004.33	5276	0.57
2015-2016	3050.17	6846	0.45
2016-2017	2599.12	7698	0.34
2017-2018	3589.18	8897	0.40
2018-2019	4475.67	9597	0.46

Source: Annual Report



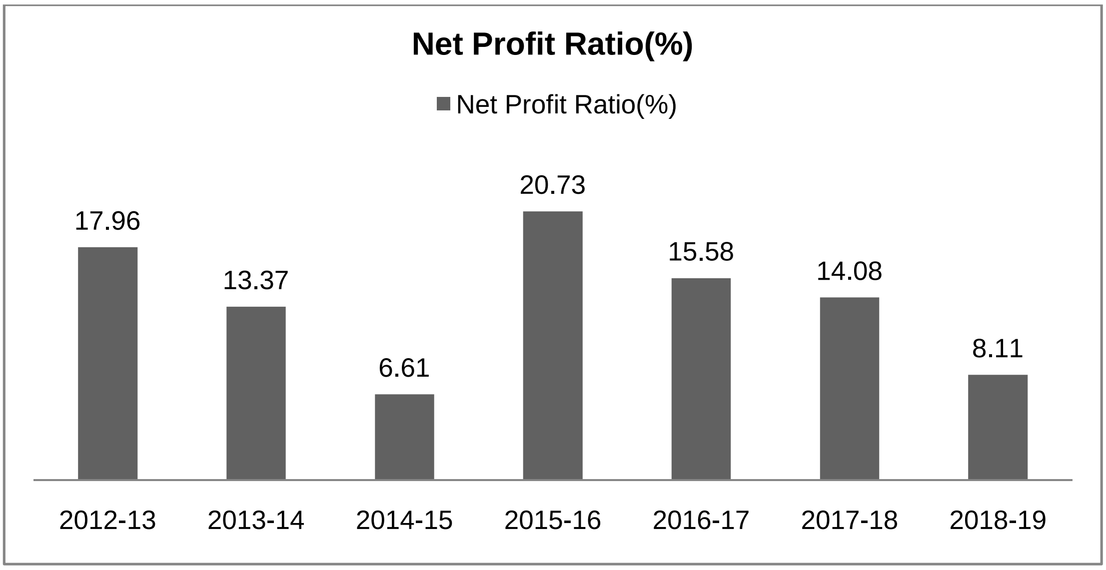
Net Profit Ratio

This ratio shows the relationship between Net Profit and Net Sales.The formula is given below.

Net Profit Ratio = **Net Profit After Tax X 100**
Net Sales

Financial Year	Net Profit After Tax	Net Sales	Net Profit Ratio
2012-2013	1003.97	5590.25	17.96
2013-2014	787.24	5887.31	13.37
2014-2015	426.33	6453.57	6.61
2015-2016	1143.13	5513.64	20.73
2016-2017	1339.11	8594.30	15.58
2017-2018	1384.18	9833.10	14.08
2018-2019	951.05	11722	8.11

Source: Annual Report



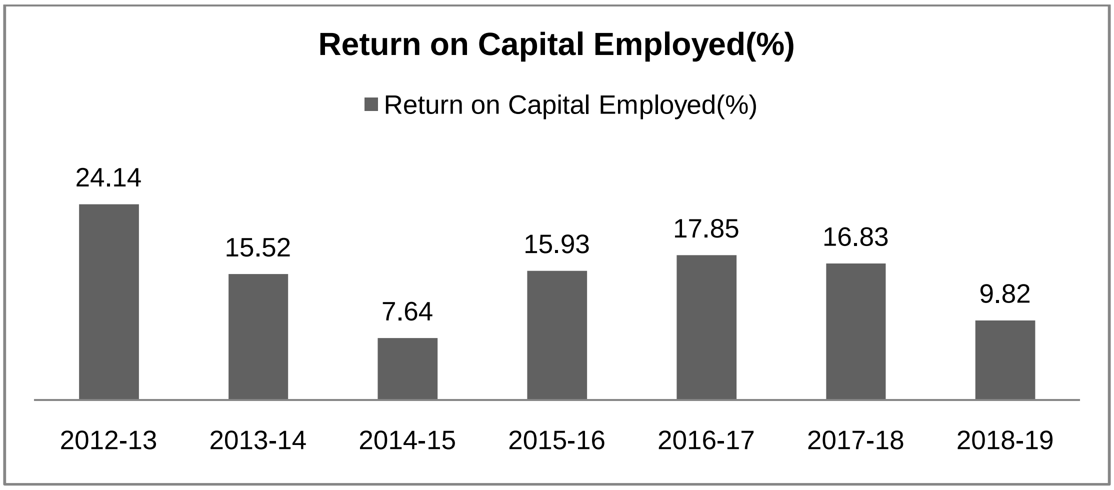
Return on Capital Employed

This ratio explains the relationship between total profits earned by the business and total investments made or total assets employed. This ratio thus measures the overall efficiency of the business operations. The formula is given below.

Return on Capital Employed = Net Profit Before Interest & Tax X 100
Avg. Capital Employed

Financial Year	Net Profit Before Interest & Tax	Avg. Capital Employed	Return on Capital Employed
2012-2013	1312.56	5437	24.14
2013-2014	944.43	6086	15.52
2014-2015	521.46	6824	7.64
2015-2016	1252.02	7858	15.93
2016-2017	1660.23	9301	17.85
2017-2018	1962.43	11661	16.83
2018-2019	1328.41	13533	9.82

Source: Annual Report



Interpretation

- The Current Ratio for seven years of Shree Cement Limited is increasing in the range of 1.56 to 2.01. This indicates the short-term liquidity of the company because the higher current ratio indicates the good quality and also the satisfactory debt repayment capacity of the firm. It also ensures the safety of the investments made by the creditors.
- The Quick Ratio for seven years of Shree Cement Limited is increasing in the range of 0.86to 1.39. This indicates that there is a good short-term solvency for the company. Because higher liquid ratio means the company has a better financial position in short term. Even if the current ratio is high and the liquid ratio is low it indicates a good repayment capacity of the firm.
- The Proprietary Ratio of Shree Cement Limited from 2012-13 to 2018-19. It is relationship between Net Worth and Total Assets. Higher proprietary ratio means strong financial position of the company and better security for creditors. Lower ratio indicates more amount of borrowed funds. Here the Proprietary Ratio ranges from 0.59 to 0.78. This shows that Net Worth of the company increasing day by day.
- The Debtors Turnover Ratio for seven years of Shree Cement Limited has show continuous change in the range of 13.55 to25.65.A high debtors turnover ratio indicates that a company's collection of accounts receivable is efficient and that the company has a high proportion of quality customers that pay their debts quickly.
- Current Liabilities to Net worth Ratio shows comparative fund invested by short term creditors and owners of the firm. Ideal ratio is 1/3 i.e.,0.33 times. Higher the ratio, difficult for the firm to collect borrowed funds. Here the Current Liabilities to Net worth Ratio ranges from 0.17 to 0.37.
- Net Fixed Assets to Net Worth Ratiofor seven years of Shree Cement Limited has show continuous change in the range of 0.34 to 0.57 andthat has been increased in the past year.

- The Net Profit Ratio for seven years of Shree Cement Limited has show continuous change in the range of 6.61% to 20.73%. A low net profit ratio indicates the inefficient management of the business and also decrease in profit.
- The Ratio of Return on Capital Employed for seven years of Shree Cement Limited has show continuous change in the range of 7.64% to 17.85%.A high Ratio indicates that a larger chunk of profits can be invested back into the company for the benefit of shareholders. The reinvested capital is employed again at a higher rate of return, which helps produce higher earnings-per-share growth. A high Ratio is, therefore, a sign of a successful growth company.

Suggestion

- To increase the gross profit margin the cost of production must be decreased by purchasing good quality materials at less price, worker's efficiency can be improved and scraps can be decreased.
- The current ratio is nearer to the ideal current ratio of 2:1 which can be maintained
- To increase the debtor's turnover ratio the deferred dues must be collected well in time to satisfy the customers.
- To Improve Return on Capital Employed Ratio by paying off debt and reducing liabilities.

Conclusion

Finally, after analyzing all ratios, it is clear that there is a decrease in profits in last three years. Increasing costs has resulted in the decline of the net profits. Therefore, the company should try to increase the sales volume by reducing the costs to increase the profits and improve the profitability position.

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