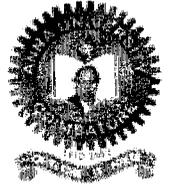


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A FINANCIAL STATEMENT ANALYSIS AND
MULTI DISCRIMINANT ANALYSIS OF
THE INDIA CEMENTS LIMITED, SANKARI
FOR THE STUDY PERIOD 2002-2011



by

S.DINESH SUNDARAM
Reg. No. 1020400019

Under the guidance of

S SANGEETHA
Assistant Professor(Sr)

A PROJECT REPORT
submitted

In partial fulfillment of the requirements
for the award of the degree

of

MASTER OF BUSINESS ADMINISTRATION

Department of Management Studies
Kumaraguru College of Technology
(An autonomous institution affiliated to Anna University, Coimbatore)
Coimbatore - 641 049

November, 2011



BONAFIDE CERTIFICATE

Certified that this project report titled “A Financial performance Analysis and Multi Discriminant Analysis of The India Cements Limited, Sankari for the study period 2002-2011” is the bonafide work of Mr.S.Dinesh Sundaram, 10MBA19 who carried out the project under my supervision. Certified further, that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

A handwritten signature in black ink, appearing to read 'Sangeetha', written over a horizontal line.

Faculty Guide

(S.Sangeetha

Assistant professor Sr
KCTBS)

A handwritten signature in black ink, appearing to read 'Vijila Kennedy', written over a horizontal line.

Director

Dr. Vijila Kennedy

(KCTBS)

Submitted for the Project Viva-Voce examination held on

18/11/11

A handwritten signature in black ink, appearing to read 'Internal Examiner', written over a horizontal line.

Internal Examiner

A handwritten signature in black ink, appearing to read 'External Examiner', written over a horizontal line.

External Examiner

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I thank **MS.Maheshwari**, Senior Manager (Finance), The India Cements Limited, Sankari for granting me permission to undertake my project work in her organization.

33650640031
No. 33028 CENTRAL Dt. 1-7-1957



PHONE : Time Office : 04283 - 240387
VP(M) Office : 04283 - 240359
Jt GM (P) 240823, Jt.GM (E) 240389
AGM (PR & Sec) 254383 / 240353
CM (Per) 240052, CM (M) 240053
Sr.M(E) 240538, Sr.M(D) 240391
M(Cost) 240533 EDP - 241500
Mines - 04283 - 254923, 254221, 254982, 254250
Fax No. 04283 - 240051
E-mail : iclskd@yahoo.co.in

THE INDIA CEMENTS LIMITED

(SANKARI WORKS)

Registered Office :
"SANKARI BUILDING"
SANKARI SALAI,
COIMBATORE - 600 002

SANKARI WEST P.O.
SALEM DISTRICT
PIN : 637 303.

No. FS/

Date : 15—11—2011

CERTIFICATE

It is hereby certified that Mr S. DINESHSUNDARAM (Roll No. 10MBA14), First year M B A student of Kumaraguru College of Technology, Department of Management Studies, Coimbatore – 641 006, carried out a Project Study titled “A Financial Performance and Multi Discriminant Analyais of The India Cements Limited, Sankari Works” from 05—07—2011 to 20—07—2011.

For The India Cements Limited,


Senior Manager (H R).

Mr S. Dineshsundaram,
I year M B A,
Department of Management Studies,
Kumaraguru College of Technology,
Coimbatore – 641 006.

Executive summary

Financial statement analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial statement analysis can be undertaken by the firm, or by parties outside the firm viz., owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst.

Ratio analysis is a powerful tool of financial statement analysis. A ratio is defined as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things”. In financial statement analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm.

The study aims at comparing the last decade performance of The India Cements Limited.

The main objectives of the study is to make an analysis on the financial performance of the company for the past ten financial years, to calculate profitability turnover & financial ratios to assess the financial position of The India Cements Limited, to study the efficiency and liquidity position using ratios, to study the trend of financial performance of the company, to assess individual financial segments and put forth the strength and weakness of the financial elements of balance sheet through trend analysis.

The discriminant analysis has been done for analysing the solvency position of The India Cements Limited.

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CHAPTER 1

INTRODUCTION

1.1 ABOUT THE STUDY:

Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. The analysis of financial statement reveals the nature of relationship between income and expenditure, and the sources and application of funds.

The investor determines the financial position and the progress of the company through analysis. The investor is interested in the yield and safety of his capital. He cares much about the profitability and the management's policy regarding the dividend.

The basis for financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is also required to aid in economic decision-making-investment and financial decision-making.

The financial information of an enterprise is contained in the financial statements or accounting reports. Three basic financial statements of great significance to owners, management and investors are balance sheet, profit and loss account and cash flow statement.

1.2 INDUSTRY PROFILE

1.2.1 Production:

The cement industry in India has been enjoying its best period with a healthy growth in demand in the past two years. The industry has been operating at its near full capacity during this period. The cement prices have been steady throughout the year with this firm demand position.

The all India clinker production picked up further by 6.5% to 129.70 million tonnes as compared to 121.75 million tonnes during the previous year. The overall production of cement in the country for the year ended March 2008 was up at 168.31 million tonnes as against 155.66 million tonnes in the previous year registering a growth of 8.1%. The domestic consumption of cement grew further by 9.8% over and above the double digit growth recorded in the previous two financial years and was at 164.02 million tonnes as compared to 149.40 million tonnes in the previous financial year. The cement export was, however, lower at 3.65 million tonnes as against 5.89 million tonnes in the previous year due to a buoyant domestic market. The clinker exports were also lower at 2.37 million tonnes as compared to 3.10 million tonnes in the previous year.

1.2.2 Growth in cement demand:

A review of regional pattern of growth in cement demand reveals the following:-

| | 2007-08 | 2006-07 |
|----------------|---------|---------|
| North | 12.17% | 10.44% |
| East | 5.65% | 5.87% |
| South | 9.71% | 12.90% |
| West | 14.00% | 9.10% |
| Central | 6.05% | 8.90% |
| Overall | 9.80% | 9.90% |

It can be observed that south in which the company's main markets are situated has registered a growth of 9.71% over and above 12.9% growth achieved in the previous year. This has clearly paved way for more remunerative prices in the market.

Taking into account a dormant capacity of 5 to 6 million tonnes, the industry has been operating to its full capacity for the past two years resulting in more pockets of shortages in the far flung areas of the country. The real unsatisfied demand in the country is yet to be established as the industry has been measuring the demand based on the despatches made. Given the thrust by the Government for the infrastructure development including roads, ports, air-ports, power plants and special economic zones and also for housing, satellite township and irrigation projects, it is believed that the cement demand will grow over 10% in the future. This implies that significant capacity would be required to catch up with this growth in demand and the new capacities have also been announced and are under creation towards this end. However, given the delays that are occurring in the execution of new projects on account of bottlenecks in the supply side of major equipments and availability of erection contractors, delays in commissioning of new capacities cannot be ruled out and hence the present buoyant situation is likely to continue till new capacity actually materializes to satisfy the growth in demand.

1.2.3 Measurements taken by the government:

On the fiscal side, the Government has taken a lot of measures in the previous year including removal of import duty and CVD on cement and has also introduced slab rates of excise duty of cement linked to Maximum Retail Price which has been further modified during the year with increase in tariff rate from Rs.600 to Rs.900 per MT. However, given the buoyant demand, the industry was able to pass on this impact to the consumer. During the year there was a steep hike in the delivered prices of imported coal caused by the increase in freight and increased demand for coal from developed countries. The CIF prices of imported coal which was around 55 – 60 US dollars in March 2007 rose to a level of 110 – 120 US dollars towards the end of March 2008 causing a huge adverse impact on the cost of production of cement for many of the units relying on imported coal

1.3 Company profile

1.3.1 History of the company:

Shri Sankaralinga Iyer was a pioneer of heavy industry in the South. Primarily a banker, he ventured into the field of industry with a rare devotion and confidence with the prime objective of developing major industries in the state. With his banking experience and interest in exploring the mineral potential of South India, he went ahead boldly with his scheme of building a cement plant in the vicinity of Thalaiyuthu, where extensive deposits of limestone were assuredly available. Shri Sankaralinga Iyer with his energy and drive gave the cement project a realistic form and content.

Two men with vision to inspire dreams for an industrial India. Two men with the ability to translate those dreams into reality. And the ability to build enduring relationships..... To build the future.

In his task of establishing the enterprise, Shri Iyer was ably assisted by Shri T.S. Narayanaswami, who is always identified with the formation and running of The India Cements Limited. Shri T.S.Narayanswami was the catalyst who saw the project through numerous hurdles and made it emerge as a viable and marketable proposition.

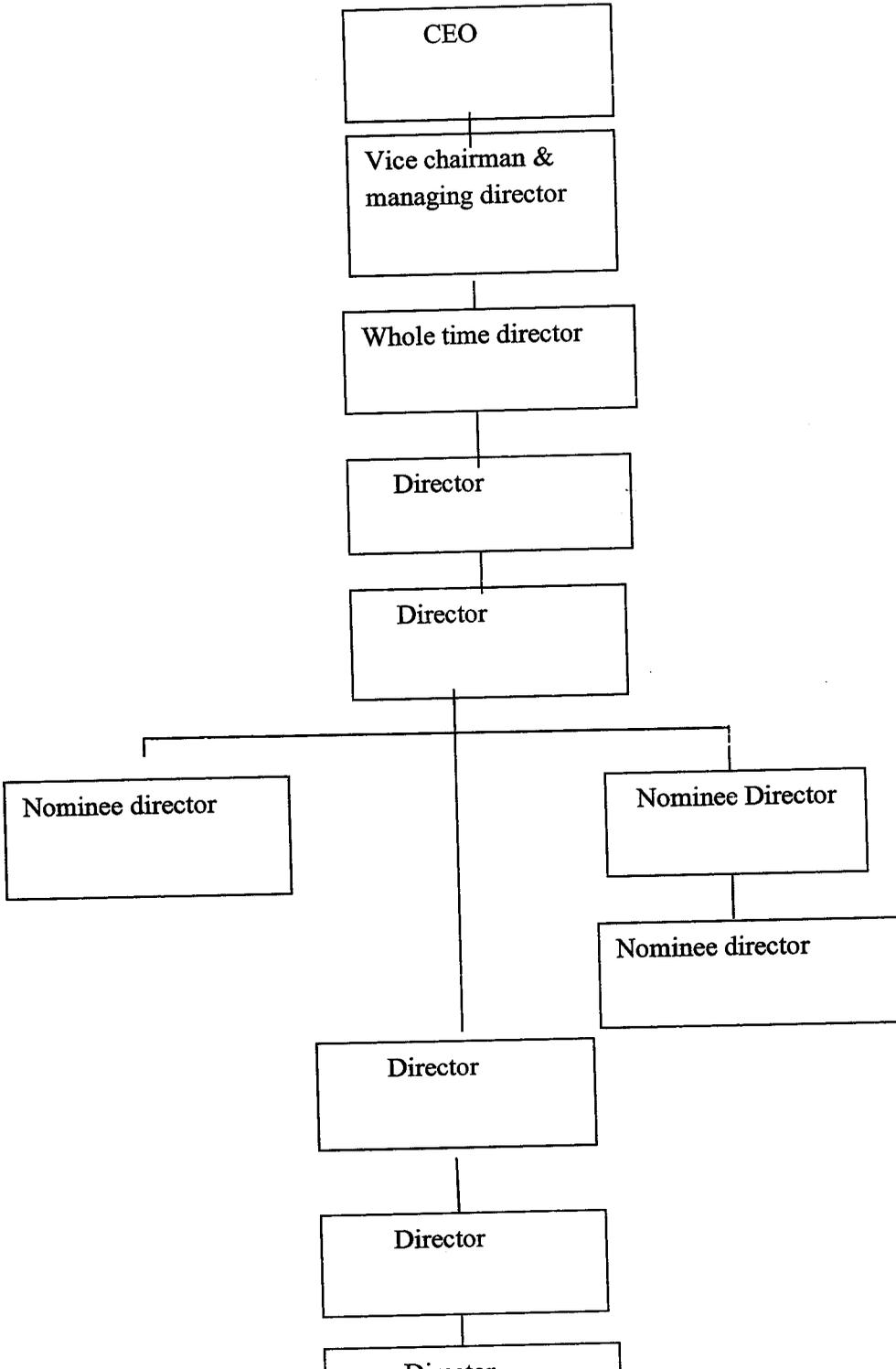
He looked beyond Cement to Aluminium production, Chemicals and Plastics and Shipping after he had fully established the India Cements' potential for expansion. A pioneer Industrialist and visionary, Shri T.S. Narayanswami played a dynamic role in the resurgence of industrialisation in free India.

1.3.2 Capital structure:

The authorized capital for a company from 2006-2011 is Rs. 460 cr. The issued capital is increased between 2006-2011 for same authorized capital. The face values for those years are Rs. 10. The issued capital and shares for 2006-2007 is Rs. 282.43 cr. and 220373657. The issued capital and shares for 2007-2008 is Rs.281.87 cr. and 281869157. The issued capital and shares for 2008-2009 is Rs. 282.43 cr. and 2821907. The issued capital and shares for

2009-2010 is Rs. 285.10 cr. and 2207175657. The issued capital and shares for 2010-2011 is

1.3.3 Organizational structure:



1.3.4 Product:

Coromandel king-sankar sakthi-raasi gold:

Coromandel King, Sankar Sakthi and Raasi Gold are high strength cements to meet the needs of the consumer for high strength concrete. As per BIS requirements the minimum 28 days compressive strength of 53 Grade OPC should not be less than 53 Mpa. For certain specialised works such as prestressed concrete and certain items of precast concrete requiring consistently high strength concrete, the use of 53 Grade OPC is found very useful. 53 Grade OPC produces higher-Grade concrete at very economical cement content. In concrete mix design, for concrete M-20 and above Grades a saving of 8 to 10% of cement may be achieved with the use of above mentioned 53 Grade OPC.

RCC works (Preferably where grade of concrete is M-25 and above).

Precast concrete items such as paving blocks, tiles building blocks etc

Prestressed concrete components

Runways, concrete Roads, Bridges etc.

Multistorey buildings.

43 Grade Cement

Coromandel-sankar-Raasi:

Coromandel, Sankar and Raasi are the 43 grade OPCs most popular general-purpose cement in the market today. The production of 43 grade OPC is nearly 50% of the total production of cement in the country

Blended cement:

Coromandel Super Power, Sankar Super Power and Raasi Super Power are the premium blended cements from THE INDIA CEMENTS LIMITED. It is produced by intergrinding of OPC clinker along with gypsum and mineral admixtures. Dedicated to the end user after passing through stringent tests at our R&D laboratory, it ensures durable structures that last for generations.

Salient features:

Strength increases as time passes.

High durability concrete - protects from corrosion, coastal attack and extreme temperature.

Ideal cement for resisting aggressive environments like chemical, chloride and sulphate attack.

Best suited for high performance concrete.

High fineness - suited for plastering and finishing works.

Low heat of hydration - Ideal for mass concrete pours and machine foundations

Equivalent to 53 grade cement.

Applications:

It is general purpose cement and can be used with advantage wherever OPC is used.

Marine structures.

Mass concrete pours such as in dams etc.

Highly suited for plastering and finishing works because of its high fineness

Sulphate resisting Portland cement(SRC):

Sankar SRC can be used for structural concrete wherever OPC or PPC or Slag Cement is usable under normal conditions. Sankar SRC is particularly beneficial in such conditions where the concrete is exposed to the risk of deterioration due to sulphate attack. For example, in contact with soils and ground waters containing excessive amounts of sulphates as well as for concrete in seawater or exposed directly to seacoast. The IS 456 1978 (revised draft code) has made elaborate provisions for use of particular type of cement against different percentages of soluble sulphate salts

Foundations, piles

Basements and underground structures

Chemical, Fertilizers and Sugar factories

Food processing industries and Petrochemical projects

Coastal works

Also for normal construction works where OPC is used.

Construction of building along the coastal area is 50 Km from sea

1.3.5 Awards and achievements:

1991- India Cements ventures into Shipping. Sets up a Shipping Division.

1994 -ISO 9002 Certification for Sankarnagar plant.

1994 -Floats successfully US\$ 50 million GDR issue.

1995 -Announces issue of 1:1 Bonus shares.

1996 -India Cements' green field cement plant at Dalavoi commences commercial production. Installed capacity 0.9 million tonnes per annum.

1997 -India cements acquires Aruna Sugars Finance Ltd. Renamed as India Cements Capital & Finance Ltd

1997 -India Cements acquires Cement Plant of Visaka Cement Industry Ltd., at Tandur, Ranga Reddy district of Andhra Pradesh. Installed capacity 0.9 Million Tonnes.

1998 -India Cements acquires Cement Corporation of India's Yerraguntla Cement Plant at Andhra Pradesh. Installed capacity 0.4 Million Tonnes.

1998 -India cements acquires Raasi Cement Ltd., at Nalgonda District of Andhra Pradesh. Installed capacity 1.8 million tonnes.

1999 -India Cements acquires Cement Plant of Shri Vishnu Cement Ltd., at Nalgonda District of Andhra Pradesh. Installed capacity 1.0 Million Tonnes.

1999 -Turnover sails over the Rs. 1000 crore mark.

2001 -India Cements divests its stake in Sri Vishnu Cement Limited.

2001 -Cement plant capacity reaches 9 million tonnes

2004 -The Unique Waste Heat Recovery System for generation of power from waste gas at Vishnupuram Cement Plant was commissioned during November 2004, for a capacity of 7.7 MW of power.

2004 -The company through its Special Purpose vehicle M/s Coromandel Electric Co Ltd has commissioned a (gas based) captive power plant at Ramanathapuram for a capacity of 17.4 MW and the same has started supplying power from the month of November 2004.

2005 -The Company has successfully completed an equity issue in the international market during October 2005 by issuing 25,613,796 Global Depositary Shares (GDSs) at USD 4.3226 per GDS, (each GDS representing 2 underlying equity shares of Rs 10 each) and raised an amount of Rs 497 crores including a premium of Rs 446 crores.

2006 -The Company has issued unsecured Zero Coupon Convertible Bonds due 2011 (FCCBs) for US \$75 Million to investors outside India at an initial conversion price of Rs.305.57 per share.

2007 -The Hon'ble High Court of Judicature at Madras vide its order dated 25th July 2007 sanctioned the Scheme of amalgamation of Visaka Cement Industry Limited with The India Cements Ltd.

2007 -The Company has converted the Sankari plant from wet process to dry process and commissioned the plant.

2007 -The Company has privately placed 2, 07, 89, and 000 equity shares at a price of Rs.285 /- per share (including premium of Rs.275 /- per share) by way of Qualified Institutional Placement in December 2007.

2008 -The Company has revived its shipping business with the purchase of two ships (dry bulk carriers) with a total capacity of 79843 DWT.

2008 -The Company has successfully bid for the Chennai franchise of the DLF-IPL 20/20 Cricket Tournament –“Chennai Super Kings”.

2008 -The Company has completed and commenced commercial production of one million tonne grinding plant at Chennai.

2009 -The Company has completed and commenced commercial production of one million tonne grinding plant at Peril (Maharashtra).

2009 -The II line of 1.2 MT at Malapert was commenced operations from March 2009.

2009 -The upgraded capacity of kiln I to 3000 TPD (1700 TPD) at Vishnupuram started functioning from April 2009.

2010 -ICL Financial Services Limited (ICLFSL), the Company's wholly owned subsidiary, acquired 60.89% (including shares acquired under open offer) of equity share capital of Indo Zinc Limited (IZL). Consequently, IZL became a subsidiary of ICLFSL and ultimate subsidiary of the Company in January, 2010.

2010 -The Company privately placed in March, 2010 2,45,94,000 equity shares at a price of Rs.120.20 per share (including premium of Rs.110.20 per share) to Qualified Institutional Buyers.

2010 -The Company's cricket franchise "Chennai Super Kings" has won IPL III Trophy in April 2010.

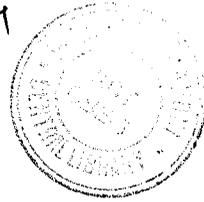
1.4 Company Highlights

1.4.1 The vision:

The new millennium will bring with it new challenges and greater opportunities. The **21st century** will most certainly see the unfolding of a period of extraordinary possibilities and incredible developments bringing about more fundamental changes in the global economy than the last **200 years**. The successful corporate will be those who equip themselves to meet the challenges and convert opportunities into winning strategies. If we are to keep pace, it is imperative that we learn to successfully tread the global pathway.

In this journey, clarity of vision, a readiness to cultivate a global mindset, effectiveness, harnessing of human resources to enhance job and knowledge skills of employees, a strong accent on R & D and innovation and a move away from selling, to innovative marketing in recognition of the fact that the **Customer is truly King**, are some of the strategies that will help corporate to survive and succeed.

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However it must be remembered that it is not enough to adopt a set of values and just leave them in place. In order to move with the changing times, values and ideas must be ceaselessly re-examined so as to ensure that they are in tune with the organisation's goals.

The India Cements Limited is committed to contribute its might in making the 21st century an "**Indian Century**".

1.4.2 The mission

Aiming High:

We should be one of the **largest Cement Companies** in the Country. Our growth in size will be through continuous review of potentials of the existing manufacturing resources, strategic acquisitions and expansions

Core Competency:

Cement will be our mainstay. However, we shall venture into related fields which afford purposeful synergy.

Quality Quest:

Product quality, consistency and customer service will be pursued as an act of faith throughout the organisation.

Modern Mindset:

In an environment which is intensively competitive, we shall be futuristic in outlook and effective in management.

Pursuit of Excellence:

The growing size of our business permits us to have an R & D set up of our own. We shall continuously challenge methods, systems, operating parameters. We shall constantly review our manufacturing systems to upgrade quality and value of products.

Human Resources:

We consider people as our valuable Assets. Our HRD Systems will be totally proactive and tuned to provide excellent working environment and transparent organisational culture

Value Addition:

ICL will continuously strive to enhance its value to its customers, Shareholders and Employees.

1.5 STATEMENT OF THE PROBLEM:

Financial statements by themselves do not give the full-fledged picture about the different facts of the company's financial position.

The company is running in profit but still it would not take any steps for expansion activity. So the researcher have taken up this study to know whether the profitability position of the company is sufficient to make any expansion or not.

During the course of the project work, the financial details were analyzed to understand the strength and weakness of the company in terms of finance.

1.6 OBJECTIVES OF THE STUDY**PRIMARY OBJECTIVE:**

To study the overall financial performance and multi discriminant analysis of The India Cements Limited for the period (2002-2011).

SECONDARY OBJECTIVES:

To analyze the financial performance using ratios like

1. Liquidity analysis
2. Operating efficiency analysis
3. Solvency analysis
4. Profitability analysis

To find the solvency position of the India Cements Limited for the period 2002-2011 using 'Z' score model.

To find the future profitability position of the company.

1.7 SCOPE OF THE STUDY:

Ratio analysis of the most powerful tools of financial analysis. The investors, shareholders, suppliers, and financial institutions make use of ratio analysis to know about the performance of the company. The ratio analysis is also used as a decision making tool, forecasting the future performance etc. ratio analysis helps to know whether the performance of the firm is improving or not. Comparative balance sheet shows the companies effectiveness in the utilization of assets and its growth over the year.

1.8 LIMITATIONS OF THE STUDY

The study has the following limitations.

The analysis has been done based on the published financial statements of the companies. The limitation of the financial statement will also apply to interpretation of the study.

The interpretation of the study was based on the past data changes in price structures and market situations, which also can affect the accuracy of the interpretations.

CHAPTER 2

REVIEW OF LITERATURE

CHAPTER 2

2.1 REVIEW OF LITERATURE:

Amita S. Kantawala¹ in “Financial performance of non banking finance companies in India” ²presents a detailed analysis on financial performances of NBFCs for ten years. For the purpose of the study, the researcher has used Ratio Analysis. On the basis of the study, the researcher has concluded that, there exists a significant difference in the profitability ratios, leverages ratios and liquidity ratios of various categories of NBFCs. When two categories are examined against each other, than more number of ratios are not statistically different form each other. Form this is follows that the ratios for all categories of NBFCs are generally different from each other. In brief, different categories of NBFCs behave differently and it is the entrepreneur’s choice in the light of some the parameters which go along with the category of NBFCs.

Evenline Van De Velda,Wim Vermeir,Filip Corten et al² A historical financial performance engagement is an analysis of a company’s past and current financial performance to similar sized companies within its industry providing insight into a company’s historical growth, profitability, debt capacity and overall liquidity. All such factors can be important indicators of a company’s ultimate value. We analyze the past five-years history of financial statement as well as financial information relative to your industry. We calculate financial ratios (liquidity, coverage, leverage and operating) for the company prepare common size financial statements and analyze the information on a trended and composite basis.

¹ : Amit S.Kanatawala “**Financial performance of non banking finance companies in India**”, Reader in Management Studies ,M.S.Patel Institution of Management Studies, M.S.University of Baroda, Baroda the Indian economic journal, volume 49,No 1,Pg 86-92.

² : Evenline Van De Velda,Wim Vermeir, Filip Corten et al **Corporate Social Responsibility And Financial Performance**, Corporate Governance, Emerald Group Publishing Limited, Year 2005 Volume:5,Pg 129-138.

Dr. Laurence M. Crane Five³ Measures of Financial efficiency are the asset turnover ratio, operating expense ratio, depreciation expense ratio, interest expense ratio and net income from operations ratio. The asset turnover ratio measures how efficiently assets are being used to generate revenue. The higher the ratio, the more efficiently assets are being used to generate revenue.

The last four efficiency measures are operation ratios accounting for the composition of gross revenues. The sum of the operating expense ratio, depreciation expense ratio and interest expense ratio reflects the total direct farm expenses per dollar of gross revenue for each component – operating, interest and depreciation. Note that the operating expense ratio standards will vary between types of organizations and operating systems. Taken together, these four ratios represent the total composition of gross revenues and in percentage terms accounts for 100 percent of the corporate gross revenues.

Myers⁴ “Financial statements analysis is largely a study of relationship among various financial factors in a business as disclosed by a single set of statements, and a study of the trend of these factors as shown in series of statements. The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm.”

John N. Myer⁵ “The financial statements provide summary of accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as on a certain date and the income statement showing the results of operations during a period.” financial statements are prepared as an end result of accounting and are the major sources of financial information of an enterprise.

³ : Dr. Laurence M. Crane Five Financial Performance Measures, Michigan State University Magazine , August 2007, pg. 6

The American Institute of Certified Public Accountants⁶ states the nature of financial statements as “Financial Statements are prepared for the purpose of presenting a periodical review of report on progress by the management and deal with the status of investment in the business and the results achieved during the period under review. They reflect a combination of recorded facts, accounting principles and personal judgments.”

The American Accounting Association⁷ expresses in its statement. “Every corporate statement should be based on accounting principles which are sufficiently uniform, objective and well understood to justify opinions as to the condition and progress of business enterprise. Its basic assumption was that the purpose of periodic financial statements of a corporation is to furnish information that is necessary for the formation of dependable judgments.”

Oklahoma Cooperative Extension ⁸Much of this analysis is “common sense” analysis. Directors should be able to scan the cooperative’s financial statement and identify factors that impact each statement. The factors that impact long-term growth are most important. The cooperative should pay particular attention to the local savings (loss) of the cooperative. This means that the cooperative only looks at ratios calculated from the earnings and expenses of the main cooperative, not the patronage received from regional investments.

⁶ The American Institute of Certified Public Accountants

CHAPTER 3

RESEARCH METHODOLOGY

CHAPTER 3

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN:

The research design adopted in the study is **descriptive** in nature as the information used is the existing data.

Descriptive research is used to obtain information concerning the current status of the phenomena.

3.2 METHOD OF DATA COLLECTION:

The data used for the study are secondary in nature.

The information was taken from the company's annual reports, accounting records and websites.

The data is collected over the period of last ten years for 2002-2011

3.3 TOOLS USED:

To analyze the data the following tools are used.

Financial tools

Statistical tools

FINANCIAL TOOLS:

The tools used for analyzing the financial performance are

1. Ratio analysis
2. Comparative balance sheet analysis
3. Multi discriminant analysis

STATISTICAL TOOLS:

Trend analysis.

CHAPTER 4

Theoretical background:

Ratio analysis is a powerful tool of financial statement analysis. A ratio is defined as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things”. In financial statement analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in financial statements do not provide a meaningful understanding of a performance and financial position of a firm. The relationship between two accounting figures, expressed mathematically, is known as financial ratio. Ratio helps to summarize large quantities of financial data and to make qualitative judgement about the firm’s financial performance. The ratio analysis also helps in decision making, financial forecasting, communication etc.

The project aims at analysis of the financial position of companies belonging to the software industry, by taking following main areas for analysis.

Liquidity analysis

Operating efficiency analysis

Solvency analysis

Profitability analysis

4.1 Liquidity analysis:

It is extremely essential for a firm to be able to meet its obligations as they become due. These are ratios, which measures the short term solvency (or) financial position of a firm and the ability of the firm to meet its current obligations. A firm should ensure that it does not suffer from lack of liquidity and also that it does not have excess liquidity. The various liquidity ratios are

- a) Current ratio
- b) Quick ratio
- c) Absolute liquid ratio

a) Current ratio:

It may be defined as the relationship between current assets and liabilities. This ratio is a measure of the firm's short term solvency.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Current assets:

Cash in hand, cash at bank, sundry debtors, stocks, work in progress, prepaid expense, marketable securities, and short term investments.

Current liabilities:

Outstanding expenses, sundry creditors, short term advances, bills payable, income tax liability.

b) Quick ratio:

It establishes relationship between quick or liquid asset and current liabilities. An asset is liquid if it can be converted in to cash immediately or reasonably soon without a loss of value.

Quick assets

c) Absolute liquid ratio:

Absolute liquid ratio is otherwise called as cash position (or) cash ratio. It may be defined as the relationship between absolute liquid assets and current liabilities.

$$\text{Absolute liquid ratio} = \frac{\text{Absolute liquid assets}}{\text{Current liabilities}}$$

Absolute liquid assets = cash in hand, cash at bank, marketable securities (or) temporary investments.

4.2 Operating efficiency analysis:

The turnover ratio indicates the efficiency with which the capital employed is rotated in the business. Activity ratio measures the efficiency or effectiveness with which a firm manages its resources or assets. It can be measured using the following ratios

- d) Debtor's turnover ratio
- e) Working capital ratio
- f) Total assets turnover ratio

d) Debtor's turnover ratio:

Sales to accounts receivables ratio indicates the efficiency of the staff entrusted with the collection of bad debts. It indicates the number of times the debtors are turned over during a year. The higher the ratio better is its efficiency, because it would indicate that debts are being collected more promptly. When credit sales are not available, the ratio is calculated by taking the total sales.

$$\text{Debtor's turnover ratio} = \frac{\text{Total assets}}{\text{Debtors}}$$

e) Working capital turnover ratio:

Working capital of a concern is directly related to sales. This ratio indicates whether the net working capital is effectively utilized in making sales. The ratio also indicates the number of times the working capital is turned over the course of the year.

$$\text{Working capital turnover ratio} = \frac{\text{Sales}}{\text{Working capital}}$$

$$\text{Net working capital} = \text{Current assets} - \text{Current liabilities}$$

f) Total assets turnover ratio:

It is a measure of how efficiently a company uses its assets to generate sales. The ratio is computed by dividing net sales by the company's total assets. It is a measure of the rupees of sales generated by Rs. 1 of the firm's assets. Generally, the more efficiently assets are used, the higher a firm's profits. The size of the ratio is significantly influenced by characteristics of the industry within which the firm operates.

$$\text{Total assets turnover ratio} = \frac{\text{Sales}}{\text{Total assets}}$$

4.3 Solvency ratios:

To assess the extent to which borrowed money or debt is used to finance assets, financial-leverage ratios are used. These ratios indicate the extent to which borrowed or debt funds are used to finance assets.

g) Total debt ratio:

The total debt ratio is computed by dividing the total debt or total liabilities of the business by its total debt plus net worth. It is the ratio that tells the extent to which the total assets of the firm have been financed using borrowed funds.

$$\text{Total debt ratio} = \frac{\text{Total debt}}{\text{Total debt} + \text{net worth}}$$

h) Proprietary ratio:

This ratio establishes the relationship between share holders fund to total assets of the firm. It is an important ratio in determining the long term solvency of the firm.

$$\text{Proprietary ratio} = \frac{\text{Net worth}}{\text{Total assets}}$$

Net worth = equity share capital + preference share capital + reserves.

A high proprietary ratio is indicative of strong financial position of the business.

i) Debt equity ratio/ gearing ratio:

This ratio indicates the relationship between loan funds and net worth of the company. If the proportion of debt to equity is low a company is said to be low geared and vice versa. The standard debt equity ratio is 1:1, for financing of projects.

$$\text{Total debt}$$

4.4 Profitability ratios

j) Net profit margin:

Net profit a widely used measure of a company's profitability, is calculated as the firm's net income after taxes divided by net sales. In addition to considering operating expenses, this ratio also indicates the ability to earn a return after meeting interest and tax obligations.

$$\text{Net profit margin} = \frac{\text{Earnings after tax}}{\text{Sales}} * 100$$

k) Return on equity:

The return on equity measures the return that shareholders earned on their equity invested in the firm. The return on equity is measured as the firm's net income divided by stockholder's equity. It is the rate of return that owners receive on their investment.

$$\text{ROE} = \frac{\text{Earnings after tax}}{\text{Net worth}}$$

l) Operating expense ratio:

The operating expense ratio explains the changes in the profit margin (DBIT to sales) ratio. This ratio is computed by dividing operating expense viz., cost of goods sold plus selling, general and administrative expenses (excluding interest) by sales. A higher operating expense ratio is unfavourable since it will leave a small amount of operating income to meet interest, dividends, etc.

$$\text{Operating expense ratio} = \frac{\text{Operating expense ratio}}{\text{Sales}}$$

CHAPTER 5

5.1 DATA ANALYSIS AND INTERPRETATIONS

Current ratio:

Table no: 5.1.1

**Table showing the current ratio of The India cements limited
Amt in Rs. Cr**

| Year | Current assets | Current liabilities | Current ratio |
|-----------|----------------|---------------------|---------------|
| 2001-2002 | 1413.41 | 492.06 | 2.87 |
| 2002-2003 | 1509.42 | 708.85 | 2.12 |
| 2003-2004 | 1518.42 | 454.04 | 3.34 |
| 2004-2005 | 1556.01 | 541.14 | 2.87 |
| 2005-2006 | 1585.74 | 495.09 | 3.20 |
| 2006-2007 | 1734.80 | 494.28 | 3.50 |
| 2007-2008 | 2149.41 | 1209.25 | 1.78 |
| 2008-2009 | 2161.98 | 1427.38 | 1.51 |
| 2009-2010 | 2897.08 | 1564.01 | 1.85 |
| 2010-2011 | 2922.00 | 1410.79 | 2.07 |

Source: secondary data.

Interpretation:

The standard nominal current ratio is 2:1

The current ratio of The India Cements Limited was little fluctuating for the past decade. It has maintained the higher ratio in the year 2006-2007.

In that year Company maintained 3.50 current ratios, that is 3 parts of the fund is remained idle without investing. It might hurt the performance of the company.

In the next consecutive years the current ratio was fluctuating. The company has maintained the lower ratio in the year 2008-2009. In that year it maintained 1.51 current ratio.

It shows company was unable to pay the obligation on time.

From the year 2003-2007 the current ratio is increasing. But in the year 2007-2008 it has been decreased up to half of the previous year's ratio.

Quick ratio:**Table no: 5.1.2****Table showing the quick ratio The India cements Limited****Amt in Rs. Cr**

| Year | Quick assets | Current liabilities | Quick ratio |
|-----------|--------------|---------------------|-------------|
| 2001-2002 | 1220.30 | 492.06 | 2.48 |
| 2002-2003 | 1162.51 | 708.85 | 1.64 |
| 2003-2004 | 1148.72 | 454.04 | 2.53 |
| 2004-2005 | 1168.86 | 541.14 | 2.16 |
| 2005-2006 | 1297.13 | 495.09 | 2.62 |
| 2006-2007 | 1468.01 | 494.28 | 2.97 |
| 2007-2008 | 1801.78 | 1209.25 | 1.49 |
| 2008-2009 | 1755.67 | 1427.38 | 1.23 |
| 2009-2010 | 2408.57 | 1564.01 | 1.54 |
| 2010-2011 | 2384.23 | 1410.79 | 1.69 |

Source: secondary data.

Interpretation:

The standard nominal quick ratio is 1:1.

The quick ratio of The India Cements Limited was little fluctuating in the past decade.

The company has maintained the higher ratio of 2.97 in the year 2006-2007 that is they had nearly 3 parts of the fund which are very much liquidity this is opportunity cost.

The company has maintained the lower ratio of 1.23 in the year 2008-2009.

In the past decade the company have not met the standard nominal ratio.

From the year 2002-2007 (except in the year 2003) the quick ratio was high that is in the range between 2-3.

After the year 2006-2007 effective measures have been taken to decrease the quick ratio. The quick ratio is in the range between 1.5-1.7 from the year 2007-2011. In the year 2010-2011 (last year) the ratio is 1.69 which is less than the ideal norms.

Absolute liquid ratio:

Table no: 5.1.3

Table showing the absolute liquid ratio of The India cements Limited
Amt in Rs. Cr

| Year | Cash & bank Balance | Current liabilities | Absolute liquid ratio |
|-----------|---------------------|---------------------|-----------------------|
| 2001-2002 | 1.03 | 492.06 | 0.002 |
| 2002-2003 | 4.25 | 708.85 | 0.006 |
| 2003-2004 | 1.77 | 454.04 | 0.003 |
| 2004-2005 | 1.28 | 541.14 | 0.002 |
| 2005-2006 | 2.80 | 495.09 | 0.005 |
| 2006-2007 | 216.15 | 494.28 | 0.460 |
| 2007-2008 | 7.84 | 1209.25 | 0.006 |
| 2008-2009 | 5.40 | 1427.38 | 0.004 |
| 2009-2010 | 2.62 | 1564.01 | 0.001 |
| 2010-2011 | 33.09 | 1410.79 | 0.024 |

Source: secondary data.

Interpretation:

The ratio of 0.5:1 is the standard ratio of absolute liquid ratio.

In the past decade the India Cements Limited have not met the standard nominal ratio. It's absolute liquid ratio for the past decade is less than 0.5.

It is inferred that the India Cements Limited has maintained low level of liquid cash (in hand and in bank), the firm cannot make use of this for investments

The India Cements Limited has maintained the higher ratio between 2006-2007.

It has maintained very low ratio during the years 2001-2002, 2003-2004, 2004-2005, and 2009-2010. The absolute liquid ratio of these years are in the range between 0.002-0.006.

Debtor's turnover ratio:

Table no: 5.1.4

Table showing the debtor's turnover ratio of The India cements Limited
Amt in Rs. Cr

| Year | Sales | Sundry debtors | Debtors turnover ratio |
|-----------|---------|----------------|------------------------|
| 2001-2002 | 1131.49 | 238.63 | 4.74 |
| 2002-2003 | 834.07 | 124.68 | 6.68 |
| 2003-2004 | 1039.87 | 145.17 | 7.16 |
| 2004-2005 | 1248.64 | 83.38 | 6.80 |
| 2005-2006 | 535.85 | 240.59 | 6.38 |
| 2006-2007 | 2269.17 | 260.21 | 8.72 |
| 2007-2008 | 3074.94 | 311.07 | 8.68 |
| 2008-2009 | 3407.07 | 353.98 | 9.62 |
| 2009-2010 | 3865.64 | 485.26 | 7.96 |
| 2010-2011 | 3550.28 | 254.40 | 13.95 |

Source: secondary data.

Interpretation:

“Higher ratio indicates high liquidity of receivables and efficient management of the company”. That is it represents how quick the firm collects the receivables from its debtors.

In the past decade the debtor's turnover ratio was fluctuating.

The India Cements Limited has maintained the higher ratio of 13.95 in the year 2010-2011.

It has maintained the lower ratio of 4.74 in the year 2001-2002.

The debtor's turnover ratio was increasing between 2006-2011. It is increased from the value 6.38 to 13.95.

The India Cements Limited has maintained the higher ratio in the year 2010-2011 (13.95) which indicates it had high liquidity receivables and efficient management. In the

Total asset turnover ratio:

Table no: 5.1.5

Table showing the total asset turnover ratio of The India cements Limited

Amt in Rs. Cr

| Year | Sales | Total assets | Total asset turnover ratio |
|-----------|---------|--------------|----------------------------|
| 2001-2002 | 1131.49 | 2410.33 | 0.47 |
| 2002-2003 | 834.07 | 2197.17 | 0.38 |
| 2003-2004 | 1039.87 | 3453.40 | 0.30 |
| 2004-2005 | 1248.64 | 3276.44 | 0.38 |
| 2005-2006 | 1535.85 | 3282.16 | 0.46 |
| 2006-2007 | 2269.17 | 4267.29 | 0.53 |
| 2007-2008 | 3074.94 | 5132.59 | 0.60 |
| 2008-2009 | 3407.07 | 5619.41 | 0.60 |
| 2009-2010 | 3865.64 | 6268.54 | 0.61 |
| 2010-2011 | 3550.28 | 6545.83 | 0.54 |

Source: secondary data

Interpretation:

This ratio tells how much revenue is generated for every Re.1 of assets. The higher the ratio, the more efficient the company is with its assets.

The India Cements Limited has maintained the ratio below the nominal value in the past decade (2002-2011) that its assets generate revenue below Re. 1. It is inefficient for the company.

In the initial years of past decade the total assets turnover ratios was decreasing that from the year 2002-2004.

The India Cements Limited has maintained the higher ratio between 2007-2008, 2008-2009 and 2009-2010 in the range 0.6.

It has maintained the lower ratio during the year 2003-2004.

Working capital turnover ratio:

Table no: 5.1.6

**Table showing the working capital turnover ratio of The India cements Limited
Amt in Rs. Cr**

| Year | Sales | Working capital | Working capital turnover ratio |
|-----------|---------|-----------------|--------------------------------|
| 2001-2002 | 1131.49 | 1511.21 | 0.74 |
| 2002-2003 | 834.07 | 1333.07 | 0.62 |
| 2003-2004 | 1039.87 | 734.6 | 1.41 |
| 2004-2005 | 1248.64 | 940.16 | 1.33 |
| 2005-2006 | 1535.85 | 1240.52 | 1.23 |
| 2006-2007 | 2269.17 | 1090.65 | 2.08 |
| 2007-2008 | 3074.94 | 1014.87 | 3.03 |
| 2008-2009 | 3407.07 | 1064.38 | 3.20 |
| 2009-2010 | 3865.64 | 800.64 | 4.90 |
| 2010-2011 | 3550.28 | 921.35 | 3.85 |

Source: secondary data

Interpretation:

The working capital turnover ratio was fluctuating in the past decade. In the past decade working capital turnover ratio was increasing. It was increased from the year 2002-2010 in the range from 0.64 to 4.90. But in the year 2010-2011 it was decreased from 4.90 to 3.85.

“Higher the ratio the lower is the investment in working capital and greater the profit. On the other hand lower the ratio greater the investment in working capital and lesser profit”.

The India Cements Limited has maintained the higher ratio of in the year 2009-2010. It has maintained the lower ratio in the year 2002-2003. It has maintained the moderate ratio for the eight years in the past decade.

The India Cements Limited has maintained the ratio of 4.90 in the year 2009-2010 which implies it has greater profit and lower investment.

It has maintained the lower ratio of 0.62 in the year 2002-2003 which implies the lesser profit and greater investment.

Total debt ratio:**Table no: 5.1.7****Table showing the total debt ratio of The India cements Limited****Amt in Rs. Cr**

| Year | Total debt | Total capital employed | Total debt ratio |
|-----------|------------|------------------------|------------------|
| 2001-2002 | 1793.10 | 2410.33 | 0.74 |
| 2002-2003 | 1778.43 | 2917.17 | 0.61 |
| 2003-2004 | 2092.64 | 3453.39 | 0.60 |
| 2004-2005 | 1987.24 | 3276.45 | 0.60 |
| 2005-2006 | 1525.24 | 3282.16 | 0.46 |
| 2006-2007 | 2058.53 | 4267.29 | 0.48 |
| 2007-2008 | 1811.51 | 132.62 | 0.35 |
| 2008-2009 | 1988.03 | 5619.42 | 0.35 |
| 2009-2010 | 2132.73 | 6268.55 | 0.34 |
| 2010-2011 | 2456.07 | 6545.83 | 0.37 |

Source: secondary data.

Interpretation:

Here a low ratio is preferable. The shareholders before investing in the shares of a company will debt ratio, in order to decide whether to invest or not.

In the past decade the total debt ratio of the India Cements Limited was decreasing from 0.74 to 0.37 in between 2002-2011.

The India Cements Limited has maintained the higher ratio between 2001-2002.

It has maintained the lower ratio between 2007-2008, 2008-2009, and 2009-2010.

The India Cements Limited has maintained the higher ratio between 2001-2002 (0.74), it is inferred that it has raised the debt during that year.

In the year 2009-2010 (0.34) it has decreased its debt.

Debt equity ratio:

Table no: 5.1.8

Table showing the debt equity ratio of The India cements Limited

Amt in Rs. Cr

| Year | Total debt | Net worth | Debt equity ratio |
|-----------|------------|-----------|-------------------|
| 2001-2002 | 1793.10 | 617.23 | 2.90 |
| 2002-2003 | 1778.43 | 418.74 | 4.25 |
| 2003-2004 | 2092.64 | 1360.75 | 1.54 |
| 2004-2005 | 987.24 | 1289.21 | 1.54 |
| 2005-2006 | 525.24 | 1756.92 | 0.87 |
| 2006-2007 | 2058.53 | 2208.53 | 0.93 |
| 2007-2008 | 1811.51 | 3321.11 | 0.54 |
| 2008-2009 | 1988.03 | 3631.39 | 0.54 |
| 2009-2010 | 2132.73 | 4135.82 | 0.51 |
| 2010-2011 | 2456.07 | 4089.76 | 0.60 |

Source: secondary data.

Interpretation:

The ratio of 1:1 is the standard debt-equity ratio.

The debt equity ratio of The India Cements Limited was fluctuating in the past decade.

It was decreasing from 4.25 to 0.60 between 2003-2010.

The India Cements Limited has maintained the higher ratio between 2002-2003.

It has maintained the lower ratio during the year 2009-2010.

It has maintained the moderate ratio for eight years in the past decade.

It is inferred that the India Cements Limited has maintained higher ratio of 4.25 in the year 2002-2003 which indicates it has raised its debt funds from the outsider's fund and maintained lesser risk to increase their earnings by paying lower fixed rate of interest to outsiders.

In the year 2009-2010 (0.51) it has decreased its debt funds from outsider's fund and

Proprietary ratio:

Table no: 5.1.9

Table showing the proprietary ratio of The India cements Limited

Amt in Rs. Cr

| Year | Net worth | Total assets | Proprietary ratio |
|-----------|-----------|--------------|-------------------|
| 2001-2002 | 617.23 | 2410.33 | 0.25 |
| 2002-2003 | 418.74 | 2197.17 | 0.19 |
| 2003-2004 | 1360.75 | 3453.40 | 0.40 |
| 2004-2005 | 1289.21 | 3276.44 | 0.39 |
| 2005-2006 | 1756.92 | 3282.16 | 0.53 |
| 2006-2007 | 2208.53 | 4267.29 | 0.52 |
| 2007-2008 | 3321.11 | 5132.59 | 0.65 |
| 2008-2009 | 3631.39 | 5619.41 | 0.64 |
| 2009-2010 | 4135.82 | 6268.54 | 0.66 |
| 2010-2011 | 4089.76 | 6545.83 | 0.62 |

Source: secondary data.

Interpretation:

“The higher the ratio it shows a better solvency for the firm”.

The proprietary ratio of the India Cements Limited was increasing in the past decade.

It was 0.25 in the year 2001-2002 but in the year 2010-2011 the ratio is 0.62.

The India Cements Limited has maintained the higher ratio between 2009-2010.

It has maintained the lower ratio during the year 2002-2003.

It has maintained the moderate ratio for eight years in the past decade.

It is inferred that in the year 2009-2010 the India Cements Limited has maintained the

Net profit ratio:

Table no: 5.1.10

Table showing the net profit ratio of The India cements Limited

Amt in Rs. Cr

| Year | Net profit/loss | Sales | Net profit ratio |
|-----------|-----------------|---------|------------------|
| 2001-2002 | -0.81 | 1131.49 | -0.07 |
| 2002-2003 | -193.17 | 834.07 | -23.1 |
| 2003-2004 | -95.93 | 1039.87 | -9.22 |
| 2004-2005 | 4.58 | 1248.64 | 0.36 |
| 2005-2006 | 45.31 | 1535.85 | 2.93 |
| 2006-2007 | 478.83 | 2269.17 | 21.10 |
| 2007-2008 | 637.54 | 3074.94 | 20.73 |
| 2008-2009 | 432.12 | 3407.07 | 12.68 |
| 2009-2010 | 354.34 | 3865.64 | 9.16 |
| 2010-2011 | 68.10 | 3550.28 | 1.92 |

Source: secondary data.

Interpretation:

The net margin ratio of The India Cements Limited was fluctuating in the past decade.

In the initial years of past decade i.e., from 2001-2004 there were negative values. It shows the net loss of the company.

But from the year 2004 there were positive values. It shows the net profit of the company.

The India Cements Limited has maintained the higher ratio between 2006-2007.

It has maintained the lower ratio during the year 2002-2003. It is in negative value.

The India Cements Limited has maintained ratio -23.1 in the year 2002-2003 which implies more debt and the interest expenses are more.

It has maintained higher ratio 21.10 in the year 2006-2007 which implies low interest expense

Operating expense ratio:

Table no: 5.1.11

Table showing the operating expense ratio of The India Cements Limited
Amt in Rs. Cr

| Year | Operating expense | Sales | Operating expense ratio |
|-----------|-------------------|---------|-------------------------|
| 2001-2002 | 834.79 | 1131.49 | 0.74 |
| 2002-2003 | 788.33 | 834.07 | 0.94 |
| 2003-2004 | 896.17 | 1039.87 | 0.86 |
| 2004-2005 | 1026.11 | 1248.64 | 0.82 |
| 2005-2006 | 252.73 | 535.85 | 0.85 |
| 2006-2007 | 524.40 | 2269.17 | 0.67 |
| 2007-2008 | 981.98 | 074.94 | 0.64 |
| 2008-2009 | 2433.14 | 3407.07 | 0.71 |
| 2009-2010 | 944.83 | 3865.64 | 0.76 |
| 2010-2011 | 3074.65 | 3550.28 | 0.86 |

Source: secondary data.

Interpretation:

The operating expense ratio of the India Cements Limited was fluctuating. Between the year 2003-2006 the ratios are in the range between 0.80-0.89. Then the ratio was decreasing up to 0.64 in the year 2007-2008. After that it is increased in the last three years.

The India Cements Limited has maintained the higher ratio between 2002-2003. It has maintained the lower ratio during the year 2007-2008.

It has maintained the moderate ratio for eight years in the past decade.

The operating expenses for the firm include recruitment, travel, technology expenses, which might not be controlled because these are the expenses which vary according to requirement.

In the year 2002-2003 the India Cements Limited has maintained the higher ratio of 0.94 which implies lower profitability. In the year 2007-2008 it has maintained the lower ratio of 0.64 which implies higher profitability.

Return on equity:

Table no: 5.1.12

Table showing the return on equity of The India cements Limited

Amt in Rs. Cr

| Year | Net profit | Net worth | Return on equity |
|-----------|------------|-----------|------------------|
| 2001-2002 | -0.81 | 617.23 | -0.001 |
| 2002-2003 | -193.17 | 418.74 | -0.460 |
| 2003-2004 | -95.93 | 1360.75 | -0.070 |
| 2004-2005 | 4.58 | 1289.21 | 0.003 |
| 2005-2006 | 45.31 | 1756.92 | 0.025 |
| 2006-2007 | 478.83 | 2208.53 | 0.216 |
| 2007-2008 | 637.54 | 3321.11 | 0.191 |
| 2008-2009 | 432.12 | 3631.39 | 0.118 |
| 2009-2010 | 354.34 | 4135.82 | 0.085 |
| 2010-2011 | 68.10 | 4089.76 | 0.016 |

Source: secondary data.

Interpretation:

“The ratio measures the return that shareholders earned on their equity invested in the firm.”

In the initial years of past decade i.e., from 2001-2004 there were negative values. It shows the net loss of the company.

But from the year 2004 there were positive values. It shows the net profit of the company.

The India Cements Limited has maintained the higher ratio between 2006-2007.

It is inferred that in the year 2006-2007 the ratio is 0.216 which implies high return.

In the year 2002-2003 the ratio is -0.460 which is the negative value and implies low return.

5.2 TREND ANALYSIS:

The financial statement may be analyzed by computing trends of series of information. This method determines the direction upwards (or) downwards. Here the time series method of trend analysis is used to forecast the future values. A time series may be defined as a sequence or repeated measurements of a variable made periodically through time. It helps in understanding past behaviour and it will help in estimating the future behaviour. By the method of least square, a straight line trend can be fitted, to the given time series of data. The straight line trend can be fitted, to the given time series of data. The straight line trend is represented as,

$$Y_t = a + bx$$

Where,

Y_t = required trend value

X = unit of time

In the first degree of parabola $Y_t = a + bx$, the values of the unknowns or constants can be calculated by the following two normal equations.

$$Y = Na + b \sum x$$

$$\sum XY = a \sum x + b \sum x^2$$

Where,

N - is the number of years or months for which data are given.

When $X=0$ (when middle year is taken as origin), the equation will take the form of:

$$Y = Na \quad \text{since } \sum x = 0,$$

$$\sum XY = b \sum x^2 \quad \text{since } a \sum x = 0.$$

Therefore,
$$a = \frac{\sum Y}{N} \quad \text{and} \quad b = \frac{\sum XY}{\sum x^2}$$

Table no: 5.2.1:**Table showing the trend analysis of total assets turnover ratio of ICL****Amt in Rs.Cr**

| Years (X) | X | Total assets turnover ratio (Y) | XY | X² |
|----------------------|----------|--|-----------|----------------------|
| 2001-2002 | -4.5 | 0.47 | -2.11 | 20.25 |
| 2002-2003 | -3.5 | 0.38 | -1.33 | 12.25 |
| 2003-2004 | -2.5 | 0.30 | -0.75 | 6.25 |
| 2004-2005 | -1.5 | 0.38 | -2.07 | 2.25 |
| 2005-2006 | -0.5 | 0.46 | -0.23 | 0.25 |
| 2006-2007 | 0.5 | 0.53 | 0.26 | 0.25 |
| 2007-2008 | 1.5 | 0.60 | 1.35 | 2.25 |
| 2008-2009 | 2.5 | 0.60 | 1.5 | 6.25 |
| 2009-2010 | 3.5 | 0.61 | 2.13 | 12.25 |
| 2010-2011 | 4.5 | 0.54 | 2.43 | 20.25 |
| 2011-2012 | 5.5 | 0.53 | | |
| 2012-2013 | 6.5 | 0.54 | | |

Interpretation:

It is found that the total assets turnover ratio of the ICL would increase to **Rs. 0.53** and **Rs.0.54** during the subsequent years.

Table no: 5.2.2

Table showing the trend analysis of net margin ratio of ICL

Amt in Rs.Cr

| Years (X) | X | Net margin ratio (Y) | XY | X ² |
|--------------|------|----------------------------|-------|----------------|
| 2001-2002 | -4.5 | -0.07 | 0.31 | 20.25 |
| 2002-2003 | -3.5 | -23.1 | 80.85 | 12.25 |
| 2003-2004 | -2.5 | -9.22 | 23.05 | 6.25 |
| 2004-2005 | -1.5 | 0.36 | -0.36 | 2.25 |
| 2005-2006 | -0.5 | 2.93 | -1.46 | 0.25 |
| 2006-2007 | 0.5 | 21.10 | 10.55 | 0.25 |
| 2007-2008 | 1.5 | 20.73 | 31.09 | 2.25 |
| 2008-2009 | 2.5 | 12.68 | 31.7 | 6.25 |
| 2009-2010 | 3.5 | 9.16 | 32.06 | 12.25 |
| 2010-2011 | 4.5 | 1.92 | 8.64 | 20.25 |
| 2011-2012 | 5.5 | 18.05 | | |
| 2012-2013 | 6.5 | 20.67 | | |

Interpretation:

It is found that the net margin ratio of the ICL would increase to **Rs.18.05** and **Rs.20.67** during the subsequent years.

Table no: 5.2.3

Table showing the trend analysis of net sales ratio of ICL

Amt in Rs.Cr

| Years (X) | X | Net sales (Y) | XY | X ² |
|--------------|------|------------------|----------|----------------|
| 2001-2002 | -4.5 | 1131.49 | -5091.70 | 20.25 |
| 2002-2003 | -3.5 | 834.07 | -2919.24 | 12.25 |
| 2003-2004 | -2.5 | 1039.87 | -2599.67 | 6.25 |
| 2004-2005 | -1.5 | 1248.64 | -1872 | 2.25 |
| 2005-2006 | -0.5 | 1535.85 | -767.92 | 0.25 |
| 2006-2007 | 0.5 | 2269.17 | 1134.58 | 0.25 |
| 2007-2008 | 1.5 | 3074.94 | 4612.41 | 2.25 |
| 2008-2009 | 2.5 | 3407.07 | 8517.67 | 6.25 |
| 2009-2010 | 3.5 | 3865.64 | 13529.74 | 12.25 |
| 2010-2011 | 4.5 | 3550.28 | 15976.26 | 20.25 |
| 2011-2012 | 5.5 | 4230.37 | | |
| 2012-2013 | 6.5 | 4600.31 | | |

Interpretation:

It is found that the net margin ratio of the ICL would increase to **Rs.4230.37** and

5.3 Discriminant analysis:

$$Z=(0.012*X1) + (0.014*X2) + (0.033*X3) + (0.006*X4) + (0.01*X5)$$

X1= net working capital/total assets %

X2=retained earnings/total assets %

X3=EBIT/total assets %

X4=market value of total equity/book value of debt %

X5=sales/total assets %

Table no:5.3.1

Table showing the discriminant analysis of the Inidia Cements Limited

Amt in Rs.Cr

| Particulars | Values |
|------------------------------|---------------|
| Net working capital | 921.35 |
| Retained earnings | 1441 |
| EBIT | 202.40 |
| Market value of total equity | 307.18 |
| Book value of debt | 2456.07 |
| Sales | 3550.28 |
| Total assets | 6545.83 |
| Z | 1.20 |

Sources: secondary data

Interpretation:

The standard norm of multi discriminant analysis (Z) is **2.675**. The **Z** value of the India Cements Limited is lower than the standard norm which that they are performing with lower efficiency and there is threat of insolvency.

Table no :5.4 Table showing the comparative balance sheet of the ICL for the period 2009-2011
Amt in Rs Cr **%**

| Particulars | 2011 | 2010 | 2009 | 2011 | 2010 |
|---|----------|----------|----------|--------|--------|
| Sources of funds | | | | | |
| Shareholder's funds | | | | | |
| Share capital | 307.18 | 307.17 | 282.43 | 0 | 8.75 |
| Reserves and surplus | 3,782.58 | 3828.65 | 3348.96 | -1.2 | 14.32 |
| Less: Loan to Employees Stock purchase scheme | 2,456.07 | 2,132.73 | 1,988.03 | 16.26 | 7.27 |
| | 1633.69 | 2003.1 | 1643.36 | -18.44 | 21.89 |
| Application on funds | | | | | |
| Cost | 5,925.99 | 5,710.20 | 5,313.58 | 37.78 | 7.46 |
| Less: Accumulated Depreciation, amortization & impairment | 2,091.51 | 1,791.59 | 1,505.33 | 16.74 | 19.01 |
| Net book value | 3834.48 | 3918.61 | 3808.25 | -2.14 | 2.89 |
| Capital work-in-progress & Advances | 1,039.83 | 702.89 | 904.04 | 47.9 | -22.25 |
| | 4874.31 | 4621.5 | 4712.29 | 5.47 | -1.9 |
| Investments | 160.31 | 313.97 | 158.97 | -48.9 | 97.5 |
| Deferred tax asset | 0.00 | 0.00 | 0.00 | 0.0 | 0.0 |
| Current assets and loans | | | | | |
| Sundry debtors | 254.40 | 485.26 | 353.98 | -47.57 | 37.08 |
| Cash and bank balances | 33.09 | 2.62 | 5.40 | 1116.2 | -51.48 |
| Other current assets | 517.73 | 468.19 | 390.92 | 10.58 | 19.76 |
| Loans and advances | 2,116.78 | 1,889.82 | 1,331.88 | 12 | 41.89 |
| | 2922 | 2897.08 | 2161.98 | 0.86 | 34 |
| Less current liabilities and provisions | | | | | |
| Current liabilities | 1,335.08 | 1,454.10 | 1,342.01 | -8.18 | 8.35 |
| Provisions | 75.71 | 109.91 | 85.37 | -40.06 | 28.74 |
| | 1410.79 | 1564.01 | 1427.38 | -9.79 | 9.57 |
| Net current assets | 1,511.21 | 1,333.07 | 734.60 | 13.3 | 81.46 |
| | 1633.69 | 2003.1 | 1643.36 | -18.44 | 21.89 |

Interpretations:

The sources of fund for the year 2010-2011 is decreased to -18.44%. The reserves and surplus is decreased to -1.2% and loans get increased in the year 2011 when compared to the year 2010.

Application of the funds for the year 2011 is increased 5.47% when compare to -1.9% in the year 2010 i.e, the cost is increased to 37.78% when compared to 7.74% in the year 2010.

The net book value for the year 2011 is -2.1% when compared to 2.89% in the year 2010.

The total current liabilities are decreased to 0.84% in the year 2010 when compared to 34% in the year 2010.

The net current assets is decreased 18.44% in the year 2011 when compared to 21.89% in the year 2010.

CHAPTER 6

FINDINGS, SUGGESTIONS AND CONCLUSION

CHAPTER 6

6.1 Results and discussions:

It is found that the current ratio of the India Cements Limited was high in all the ten years, especially in the year 2006-2007 i.e., 3.50. The higher current ratio represents that the firm has high liquidity and also it maintains more idle funds.

It is found that the liquid ratio of the India Cements Limited was high in all the ten years, especially in the year 2006-2007 i.e., 2.97. The high liquid ratio represents that the firm has more opportunity cost associated with it.

It is found that debtor's turnover ratio of the India Cements Limited was fluctuating over the entire periods. Higher the value for Debtor's turnover ratio implies a firm's inability to sell on credit thereby losing sales and profits.

It is found that the Total Assets Turnover ratio of the India Cements Limited was maintained below Re. 1 and it is showing an increasing trend over the last ten years.

It is found that the working capital turnover ratio of the India Cements Limited was fluctuating and the firm had made more investment in the working capital in last few years.

It is found that the Total Debt ratio of the India Cements Limited is very low since it is a 'Less Debt Company'.

It is found that the Debt-Equity ratio of the India Cements Limited is fluctuating and the company has decreased its debt funds from the outsiders in last few years.

It is found that the Proprietary ratio of the India Cements Limited was low in past decade.

It is found that the Net Margin ratio of the India Cements Limited was fluctuating during the past decade.

It is found that the Operating Expense ratio of the India Cements Limited was decreasing during the mid of past decade.

It is found that the Return On Equity of the India Cements Limited was very low at the

6.2 Recommendations:

The India Cements Limited should make use of the idle funds, to invest in new projects which in turn will yield more revenue and profit.

The India Cements Limited credit policy has to be tightened in order to avoid bad debt losses.

The India Cements Limited net margin seems to be good in the last 5-6 years while it had negative value in the starting part of last decade.

The India Cements Limited should sell the inventory fast enough and the firm's collection period and the credit accounts should in shorter period. The India cements Limited should use the fixed assets effectively for increasing the Total Assets Turnover ratio.

Since debt is the cheapest source of fund that a firm can avail, the India Cements Limited can make use of it for getting tax benefit.

The India Cements Limited should increase net profit by increasing the sales. The sales should be increase by reducing the cost of production.

The operating expenses for the India Cements Limited include recruitment, travel, technology expenses, which might not be controlled because these are the expenses which vary according to requirement.

6.3 Conclusion:

The India Cements Limited is playing a major role in the cement industry, the firm in its growth stage which has its own strong customer and employee force in the last few years that drives the firm to achieve its vision.

On studying the financial performance of the India Cements Limited for a period of ten years from 2002 to 2011, the study reveals that the financial performance in general satisfactory. It could be concluded that the company is performing well and has a sound financial performance in last few years, but the company should take the following measures such as:

Effective utilization of idle funds,

It has to follow strict credit policy and

Should enhance controlling measures to reduce cost of sales and operating expenses which would ultimately improve the financial position of the concern and helps to fetch more profit to the company in near future.

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