



## A STUDY AND RESEARCH ON RATIO ANALYSIS OF SELECTED CERAMIC UNITS OF INDIA

**Mr. Barot Himatkumar V.**  
Research Scholar (Ph.D.)

Hemchandracharya North Gujarat University, Patan  
Opp. Civil Hospital, B/h. S.B.I. Bank of India, Bhatvas, Himatnagar.

### ABSTRACT

The financial statements as prepared and presented annually are of little for guidance of prospective investors, creditors and even management. If relationships between various related items in these financial statements are established, they can provide important clues to measure accurately financial health and ability of business to make profit. This relation between two related items of financial statements is known as ratio. The ratios can be expressed in various terms like number, %, days, times etc. In this research paper, the author has considered two company's data for five years i.e. from 2013-14 to 2017-18 and decided to study and analyze five ratios gross profit ratio, net profit ratio, inventory turnover ratio, current ratio, return on shareholders' funds.



**KEY WORDS :** Ceramic Units, Gross Profit Ratio, Net Profit Ratio, Inventory Turnover Ratio, Current Ratio and Return on Shareholders' funds.

### OBJECTIVE OF STUDY

This research paper aims at conducting an analysis on certain ratios of following two selected companies for five years i.e. from 2013-14 to 2017-18.

- a) Hindustan Sanitaryware India Limited (H.S.I.L.).
- b) Kajaria Limited.

### LITERATURE REVIEW

Review of literature can be just simple summary of the sources, but it usually has an organizational pattern and combines both summary and synthesis. The review of literature plays a vital role to undertake the study on ratio analysis of company. The researcher has reviewed past few year literatures from financial perspective which are described as follows:

**1.1 S. Saigeetha & Dr. S.T. Surulivel (2017)** have given a research paper on "Analysis on financial performance using ratio analysis of BHEL (Trichy)". This paper is enlightened the financial performance of the public sector undertaking that is, BHEL (Bharat Heavy Electricals Limited). Financial analysis helps to assess the profitability and financial position of a concern. This analysis can be done by comparing the ratios for the same over a period of years, or for one concern against the industry as a whole, or for the concern against as the predetermined standards, or for just one department of the concern against the other departments of the same concern. Accounting ratios are calculated for a number of years which shows the trend for the change of position. To take certain important decisions for their business various

users like managements of the companies, bankers, investors and creditors etc uses the accounting ratios for analyzing the financial position. In order to analyze the financial performance of BHEL also the accounting ratios are used. The secondary data is used for the entire study. The financial information of BHEL has been collected from the annual reports of the company which is printed. The final result of the paper in accordance to the financial performance of BHEL is not similar during the period of the study. In the present globalized era, the manufacturing of power plant equipment is an important commodity. The financial soundness of the company will automatically affected by the increasing capacity of production. In a business for each and every activity finance is the base. So, finally he has suggested that to analyze the financial position of the company it is very essential.<sup>1</sup>

**1.2 Dr. Viral Shah & Shreedha Shah (2018):** These two authors have made a review on financial performance of one company i.e. Visa Steel Limited for five years. For this, they have used accounting ratios tool useful for various stakeholders like management representatives, suppliers, financiers, shareholders and creditors. According to them, after carrying out their analysis they have finally interpreted that the financial performance of companies is very poor after 2015-16 and have suggested that directors should pay more attention to survive.<sup>2</sup>

**1.3 Abdullah Al Masum , Fatema-Tuz-Johora (2012)** mentioned in their research paper titled as “Performance Evaluation of Selected Ceramic Companies of Bangladesh” about evaluation of ceramic industry of Bangladesh and to check its financial position. With the help of ratios, an aim is achieved of four selected ceramic (Fu Wang, Monno, Shinepukur and Standard) companies in Bangladesh. Measurement of financial performance by ratio analysis helps identify organizational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organizational importance. The actual measure of an industry was profitability, solvency, efficiency and liquidity to test the financial position. The liquidity position was found to be very weak in all the cases of the selected companies and thereby reflecting the difficulties in paying short-term obligation on due dates. Financial stability of the selected companies has shown an upward trend. This study will help investors to identify the nature of financial performance of the ceramic industry of Bangladesh and will also help to take investment decision.<sup>3</sup>

#### RESEARCH METHODOLOGY:

To undertake the study author has collected secondary data from the annual reports of five years i.e. 2013-14 to 2017-18 of selected ceramic companies of India. Besides other required information were also collected through reference like financial literature, articles, websites, magazines and journals.

#### (1) Statement Showing Key Variables for Calculation of Ratios of Hindustan Sanitary Ware India Limited

(Rs. In Crores)

Sr. No.	Key Variables	2013-14	2014-15	2015-16	2016-17	2017-18
1	<b>Gross Profit Ratio</b>					
	Gross Profit	90311.00	96885.39	95594.41	99311.34	105067.67
	Net Revenue From Operations	185820.68	198062.48	197873.49	207817.12	225278.00
2	<b>Net Profit Ratio</b>					
	Net Profit	3398.10	8544.48	10849.48	10029.29	7410.02

<sup>1</sup> <http://www.ijirms.com/downloads/22042017190417-47.pdf>

<sup>2</sup> [https://www.researchgate.net/publication/324654672\\_A\\_Study\\_On\\_Financial\\_Performance\\_Using\\_Ratio\\_Analysis\\_of\\_Visa\\_Steel\\_Limited\\_final](https://www.researchgate.net/publication/324654672_A_Study_On_Financial_Performance_Using_Ratio_Analysis_of_Visa_Steel_Limited_final)

<sup>3</sup> <http://journals.abc.us.org/index.php/abr/article/view/Masum/241>

	Net Revenue From Operations	185820.68	198062.48	197873.49	207817.12	225278.00
3	<b>Inventory Turnover Ratio</b>					
	Cost of Goods Sold	64752.31	73151.27	76272.40	80519.24	88888.06
	Average Inventories	42550.53	45934.75	48220.93	49127.61	52841.89
4	<b>Current Ratio</b>					
	Current Assets	96,782.84	96,491.83	95,156.66	120,688.49	142,914.43
	Current Liabilities	95,793.98	82,155.56	82,440.84	104,623.99	118,690.78
5	<b>Return on Shareholder's Funds</b>					
	Profit After Taxes	3398.10	8544.48	10849.48	10029.29	7410.02
	Total Shareholder's Funds	102,829.28	132,308.80	138,649.48	144,652.70	148,746.84

## (2) Statement Showing Key Variables for Calculation of Ratios of Kajaria Limited

(Rs. In Crores)

Sr. No.	Key Variables	2013-14	2014-15	2015-16	2016-17	2017-18
1	<b>Gross Profit Ratio</b>					
	Gross Profit	81394.60	136167.00	122968.80	129213.60	129976.60
	Net Revenue From Operations	183631.00	218689.00	241849.00	254963.00	271060.00
2	<b>Net Profit Ratio</b>					
	Net Profit	18454.00	50860.00	23397.00	25381.00	22860.00
	Net Revenue From Operations	183631.00	218689.00	241849.00	254963.00	271060.00
3	<b>Inventory Turnover Ratio</b>					
	Cost of Goods Sold	78398.00	50840.00	84635.00	91943.00	106033.00
	Average Inventories	16417.00	17687.00	21096.00	29600.50	37524.50
4	<b>Current Ratio</b>					
	Current Assets	35,251.00	49,760.00	52,923.00	82,207.00	95,131.00
	Current Liabilities	31,285.00	36,291.00	40,717.00	55,402.00	54,867.00
5	<b>Return on Shareholder's Funds</b>					
	Profit After Taxes	18454.00	50860.00	23397.00	25381.00	22860.00
	Total Shareholder's Funds	51,759.00	75,713.00	95,616.00	125,114.00	141,711.00

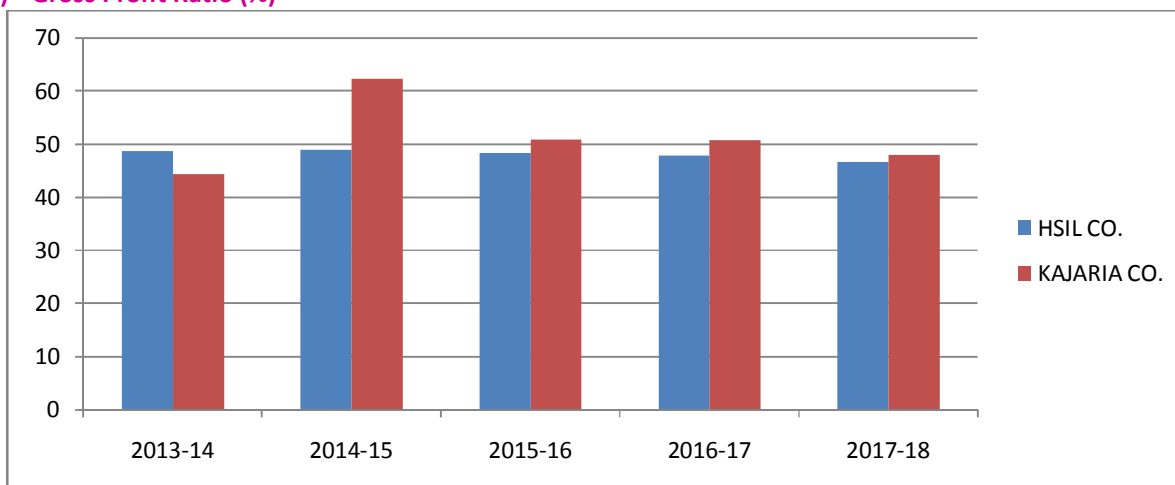
### Ratio Analysis:

#### Statement Showing Year Wise Ratios of Companies

Sr. No.	Companies	2013-14	2014-15	2015-16	2016-17	2017-18
		<b>Gross Profit Ratio (%)</b>				
1	H.S.I.L. CO.	48.60	48.92	48.31	47.79	46.64
	KAJARIA CO.	44.33	62.27	50.85	50.68	47.95
		<b>Net Profit Ratio (%)</b>				
2	H.S.I.L. CO.	1.83	4.31	5.48	4.83	3.29
	KAJARIA CO.	10.05	23.26	9.67	9.95	8.43
		<b>Inventory Turnover Ratio (Times)</b>				
3	H.S.I.L. CO.	1.52	1.59	1.58	1.64	1.68
	KAJARIA CO.	4.78	2.87	4.01	3.11	2.83
		<b>Current Ratio (Times)</b>				

4	H.S.I.L. CO.	1.01	1.18	1.15	1.15	1.20
	KAJARIA CO.	1.13	1.37	1.3	1.48	1.73
<b>Return on Shareholder's Funds (%)</b>						
5	H.S.I.L. CO.	3.30	6.46	7.83	6.93	4.98
	KAJARIA CO.	35.65	67.17	24.47	20.29	16.13

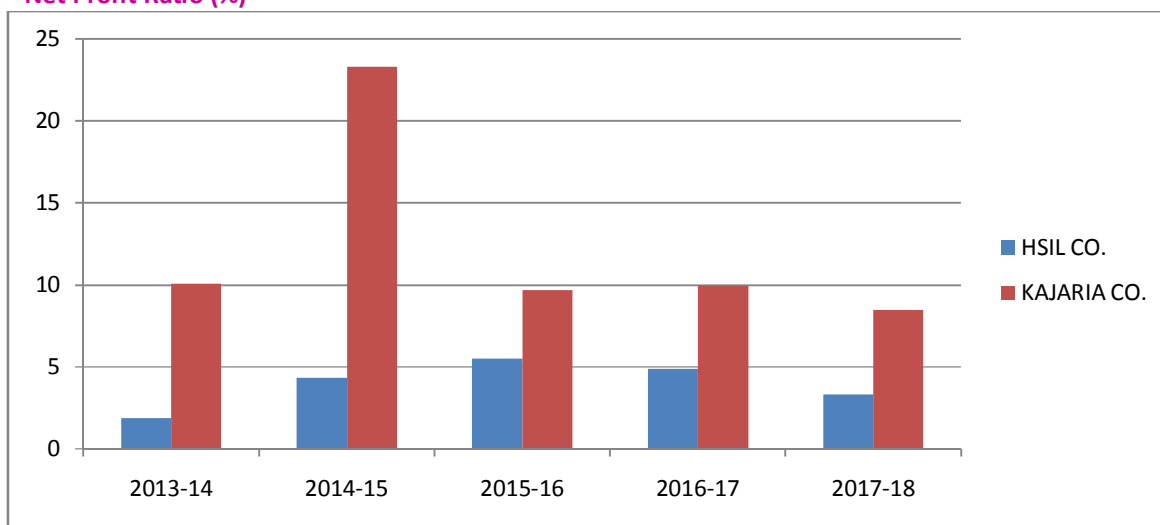
**1) Gross Profit Ratio (%)**



**Interpretation:**

It has been observed that average gross profit of last year was 48.05% of H.S.I.L Co. and 51.22 of Kajaria Co. This shows that Kajaria has better profitable situation as compared to H.S.I.L Co. It also observed that during 2014-15 gross profit of both the companies were the highest among these five years.

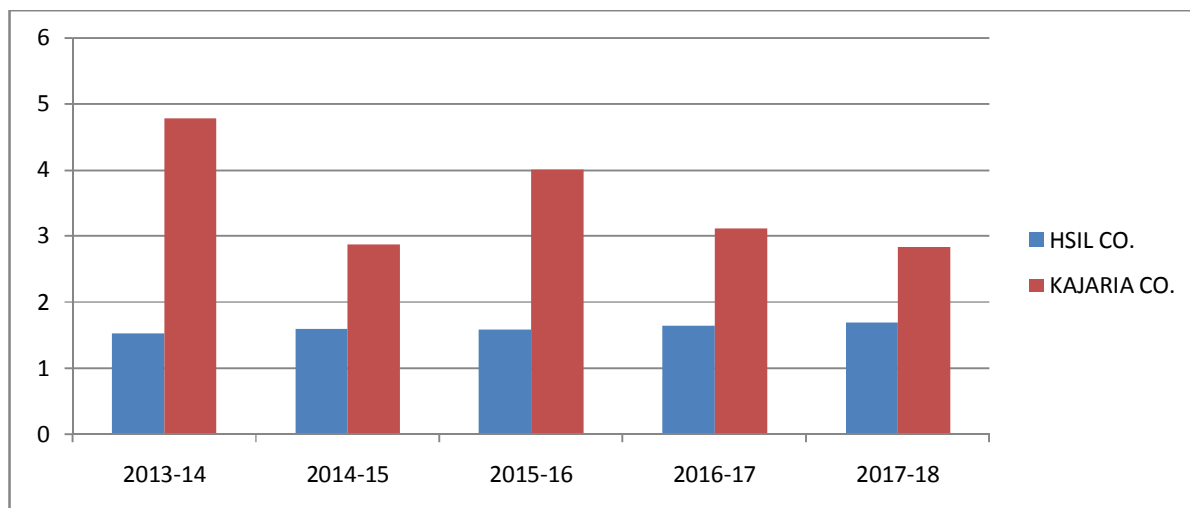
**2) Net Profit Ratio (%)**



**Interpretation:**

It is analyzed that the average net profit of last five years of H.S.I.L Co. and Kajaria Co. was 3.95% and 12.27% respectively. This shows that Kajaria Co. has earned net profit three times more than H.S.I.L. Co.

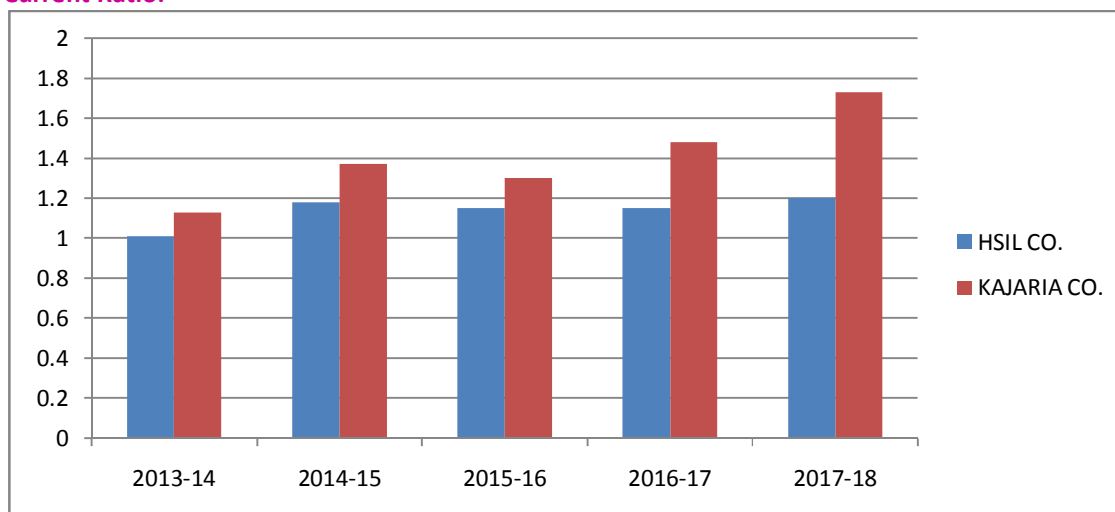
### 3) Inventory Turnover Ratio



#### Interpretation:

Average inventory turnover ratio of five years was 1.60 times of H.S.I.L. Co. whereas it was 3.52 in case of Kajaria Co. Hence, it is clearly evident that Kajaria Co. has inventory turnover ratio twice than that of H.S.I.L. Co.

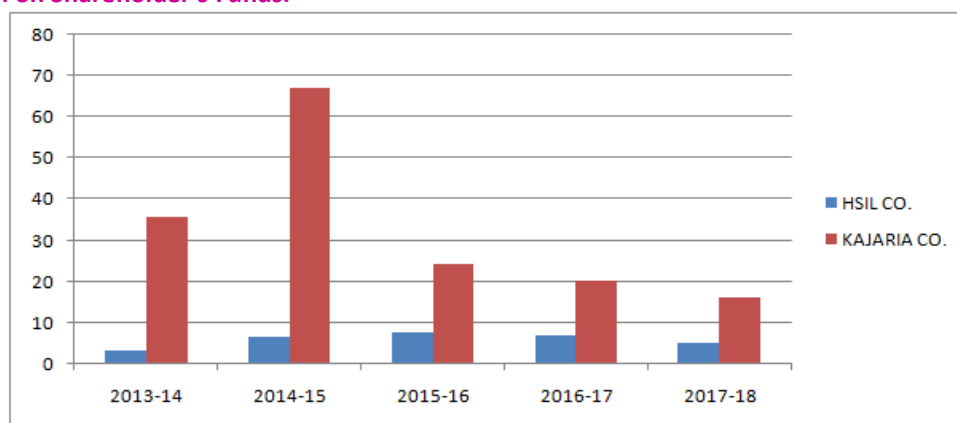
### 4) Current Ratio:



#### Interpretation:

Average current ratio of the last five years was 1.14 times of H.S.I.L. Co. and 1.40 in case of Kajaria Co. However current ratio is ideally known to be 2:1. Hence, both the companies are having very low current ratios.

### 5) Return on Shareholder's Funds:



#### Interpretation:

As far as return on shareholder's funds is concerned, it is found that H.S.I.L. Co. has an average return on share holder's funds is 5.90% whereas it is 32.74% in case of Kajaria Co. Hence it is observed that Kajaria Co. providing return to its share holders approximately 6 times more than that of H.S.I.L. Co.

#### SUGGESTIONS

- 1) The Gross Profit Ratio of H.S.I.L. Co. is lower than Gross Profit of Kajaria Co. Even it was found very great variance when both the companies achieved highest gross profit in the year 2014-15. So H.S.I.L. Co. should try to increase its overall sales by decreasing some operating costs and increasing selling price per unit.
- 2) The net profit of H.S.I.L. Co. was also found to be very low consequent to low gross profit. Hence, it is suggested to decrease its operating costs, finance costs and taxation liabilities to increase its net profit for the upcoming years.
- 3) The H.S.I.L. Co. should also try to increase its turnover more and more which will also yield a fruitful effect on its inventory turnover ratio which is relatively very poor as compared to inventory turnover ratio of Kajaria Co.
- 4) Both H.S.I.L. Co. and Kajaria Co. should try to improve their current ratio as it is very low than standard ratio of industry usually 2:1. For this, both companies have to increase its current assets through better operating cycle and meeting its short term debts.
- 5) H.S.I.L. Co. has to increase its return on shareholder's funds by paying off its long term debts and thereby deducting or declining its interest bearing funds. This will give a maximum return to its shareholders who are the return entitling holders.

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