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A Study on Trend & Profitability of Selected Ceramic Companies in India

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Abstract

We intend to examine the profitability and liquidity of the ceramic industry of India for predicting its sustained growth in the future competitive world. It is important to check the financial health of the industry on the basis of different financial ratios and to make a comparison among them. Different types of liquidity, profitability, and activity ratios can be used to assess any industrial units profitability and consistency. This research paper has focused on the capital structure of four ceramic companies (KAJARIA, HSIL, SOMANY, and CERA), ratio analysis has been done to compare the financial performance of ceramic industry and offer a suggestion for the improvement of efficiency in the industry.

Keywords: Ceramic Industry, Financial Appraisal, Debt, Equity, Capital, Profitability.

Introduction

There are many people, who have minimal financial literacy, are keen to know the financial performance status of the companies where deposits are invested. They may be as an investor, manager, employee, owner, lender, customer, government and public at large. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenue. Before knowing the financial performance of the ceramic industry, we find out something about the history of the ceramic industry.

The ceramic industry has continued its growth trajectory over the past few years. The Indian ceramic companies have a vital role play in the world's ceramic market. Today Ceramic tile throughout the world is not hand-made or hand-made painted for the most part. Automated manufacturing techniques are used and the human hand does not enter into the picture until it is time to install the tile. They are used in an almost infinite number of ways and you don't have to consider yourself wealthy to own them.

A ceramic tile as a product segment has grown to a sizeable chunk today at 340 million square meters production per annum. However, the potential seems to be great, particulars housing sector, retail, IT & BPO sectors have been witnessing a precedent boom in recent times. The ceramic tiles sector has been clocking the growth of 12-15 % consistently over the last few years. Today, India figures in the top 5 countries in the world manufacturing ceramic tiles. The key drives for the ceramic tiles in India are the boom in housing sector coupled with government policies fuelling strong growth in the housing sector. The retail boom in the Indian economy has also influenced the demand for higher-end products. Overall the bullish growth estimates in the Indian economy has significantly influenced the growth of the Indian ceramic tile industry. The main product segments are the Wall tile, Floor tile, Vitrified tile and Porcelain tile segments. The market shares are 35%, 53%, and 12% respectively for wall, floor & vitrified tiles. The tiles are available in a wide variety of designs, textures and surface effects. They cater to tastes as varied from rustics to contemporary marble designs in super glossy mirror finishes.

Review of Literature

Financial Analysis is a way of identifying the financial strength and weakness of the firm by the properly maintained relationship between the balance sheet and the profit and loss account. Financial analysis helps to assess the financial profitability. Bidjut Jyoti Bhattacharzee (2010) conducted an investigation into the determinants of capital structure of Indian industry. He analyzed that liquidity and growth in terms of performance of the firm have a significant influence on the debt-equity ratio. Dr. K.R. Sivabagyam,(Financial Performance Analysis Of Selected Ceramic Companies In India) 2016, has analyzed ten years of financial

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performance of selected seven ceramic companies.In this paper, the author analyzed the financial performance by incorporating ratio, mean, standard deviation, coefficient of variation and ANOVA. He concluded that the Asian Granito company performed better followed by Murudeshwar Ceramics and Kajaria Ceramics companies. Dr. R.Mohanasoundari, A.Kalaivani,(A Comparative Study On Selected Ceramics Industry In India) 2017. In this paper, the author has used various ratios in term of profitability, solvency, efficiency, and liquidity. Based on this the author has analyzed the financial performance of the four selected ceramic company and found that the financial performance of all selected company was good.

Objective of the Study

Capital structure and its analysis in ceramic industry have mainly concerned the composition of funds (debt and equity). This research paper aims at knowing the analysis of capital structure in 4 different companies in the ceramic industry with the help of financial analysis of various financial ratios and worth and total debt of companies.

1. To analyze the changes in capital structure in four different companies over the period of five years.
2. To study the changes in the shareholder's fund and debt.
3. To analysis the different solvency and profitability ratios.
4. To give necessary suggestions and recommendations.

Scope of Study

The research aims to Study the impact of capital structure on the profitability which will help to give necessary suggestions for the formulation of capital. Four ceramic company's annual report for five years from 2011 to 2015 has been taken to analyze their financial performance by incorporating ratio analysis.

Methodology

Type of research

The research methodology used for this study is descriptive and analytical research.

Sources of Data

The analysis of the financial performance of the company necessitates accurate and reliable data. Therefore, the sources for collecting the data include both primary and secondary. Mainly secondary data has been used for the study.

Tools Used For Data Analysis

The different tools that have been used for the analysis of data are trend analysis, financial leverage and financial ratio. A trend analysis is an aspect of technical analysis that tries to predict the future movement of a stock based on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future. Financial leverage is the degree to which a company uses fixed income securities such as debt and preferred equity. The more debt financing a company uses, the higher it's financial leverage. A high degree of financial leverage means high-interest payments, which negatively affect the company's bottom-line earnings per share. A financial ratio or accounting ratio is a relative magnitude of two selected numerical values taken from enterprise's financial statements.

The collected data has been classified and tabulated. This has been done to provide a clearer view and understanding of the data. The tabulated data is then analyzed to understand the trend in the capital structure. Subsequently, the findings are recorded, which form the basis for the conclusions and suggestions.

Data Analysis and Interpretation

Table 1.1- Table Showing the Current Ratio of Four Companies from March 2011 to March 2015

Company/ years	2011	2012	2013	2014	2015
HSIL	1.14	0.90	0.95	0.73	1.01
KAJARIA	0.53	0.62	0.60	0.79	0.14
SOMANY	0.79	0.78	0.82	0.86	0.91
CERA	1.11	1.11	1.10	1.12	1.16

HSIL

The above table shows the deviation in the current ratio it decreases from 1.14 in 2011 to 0.91 in 2012, there is a slight continuous change in the ratio thereafter, and in 2015 the ratio is 1,01. The company should increase its assets over liabilities as the ratio to be maintained is 2:1 whereas the company has a ratio between .73 to 1.14 over the period of five years which is quite low.

Kajaria

The above table shows the deviation in the current ratio of Kajaria ceramics ltd, the ratio shows a continuous slight change from 2011 to 2014 the ratio has increased wherein, 2015 the ratio has fallen to 0.14 which is too low from the standard ratio to be maintained by the company. The company needs to decrease its liabilities.

SOMANY

The above table shows the change ratio of somany ceramics the ratio has a very little change over the period of five years; it has increased from 0.79 to 0.91 from 2011 to 2015. The company needs to increase its current ratio for the betterment of the financial position.

CERA

The above table shows the change in the current ratio of the company, which is mostly stable; it increased from 1.11 in 2011 to 1.16 in 2015. The company has maintained the current ration over the period of time, but it needs to increase the ratio in the next few for a stable financial position.

Table1.2-Table Showing the Quick Ratio of Four Companies from March 2011 to March 2015

Company/ years	2011	2012	2013	2014	2015
HSIL	0.80	0.84	0.98	0.84	0.73
KAJARIA	0.42	0.50	0.56	0.64	1.01
SOMANY	1.04	0.90	0.86	0.96	0.95
CERA	1.08	0.88	1.07	0.96	1.06

HSIL

The above table shows the deviation in the quick ratio it increases from 0.80 in 2011 to 0.84 in 2012, there is a slight continuous change in the ratio thereafter, and in 2015 the ratio is 0.73. The company should increase its liquid assets over liquid liabilities as the ratio to be maintained is 1:1 whereas the company has a ratio between 0.80 to 0.98 over the period of five years which is low.

KAJARIA

The above table shows the deviation in the quick ratio of Kajaria ceramics ltd, the ratio shows a positive increase from 0.42 in 2011 to 1.01 in 2015, which is good for the company, the company should maintain a ratio higher than 1:1.

SOMANY

The above table shows the change of the quick ratio of somany ceramics the ratio has a change over the period of five years; it has decreased from 1.04 to 0.95 from 2011 to 2015. The company needs to increase its liquid assets for the betterment of the financial position.

CERA

The above table shows the change in the quick ratio of the company, which is mostly stable, but it needs to increase the ratio in the next few years for a stable financial position. As the ratio is around 1.1 but decreases in between it should maintain an average.

Table 1.3- Table showing the debt-equity ratio of four companies from March 2011 to March 2015

Company/ years	2011	2012	2013	2014	2015
HSIL	0.55	0.76	0.83	0.82	0.38
KAJARIA	0.55	0.76	0.83	0.82	0.38
SOMANY	1.79	1.21	0.94	0.59	0.55
CERA	0.34	0.30	0.31	0.19	0.17

HSIL

The above table shows the deviation in the debt-equity ratio it increases from 0.55 in 2011 to 0.76 in 2012, there is a slight continuous change in the ratio thereafter, and in 2015 the ratio is 0.38. The company should maintain the ratio, the lower the ratio the better it is for the company

KAJARIA

The above table shows the deviation in the debt-equity ratio of Kajaria ceramics ltd, the ratio shows a positive increase from 0.55 in 2011 to 0.76 in 2012, there is a slight continuous change in the ratio thereafter, and in 2015 the ratio is 0.38. The company should maintain a ratio, the lower the ratio the better it is for the company.

SOMANY

The above table shows the change in the debt-equity ratio of Somany ceramics the ratio has a change over the period of five years; it has decreased from 1.79 to 1.21 from 2011 to 2012. The company shows a positive change in the ratio as it decreases in the following years; in 2015 the ratio is 0.55. The company needs to maintain its ratio for the betterment of the financial position.

CERA

The above table shows the change in the debt-equity ratio of the company, which is decreasing, which is nice for the company it has decreased for 0.34 to 0.17 which is a positive change for the company. The company should maintain the ratio for the betterment of the financial position of the company.

Table 1.4- Table showing the long-term debt-equity ratio of four companies from March 2011 to March 2015

Company/ years	2011	2012	2013	2014	2015
HSIL	0.47	0.53	0.53	0.49	0.25
KAJARIA	0.43	0.25	0.22	0.25	0.25
SOMANY	0.88	0.54	0.41	0.26	0.24
CERA	0.15	0.08	0.08	0.04	0.04

HSIL

The above table shows the deviation in the long-term debt-equity ratio it increases from 0.47 in 2011 to 0.53 in 2012, there is a slight continuous change in the ratio thereafter, but in 2015 the ratio decreases to 0.25. The company should maintain the ratio, the lower the ratio the better it is for the company

KAJARIA

The above table shows the deviation in the long-term debt-equity ratio of Kajaria ceramics ltd, the ratio decreases from 0.43in 2011 to 0.25 in 2012, there is a slight continuous change in the ratio thereafter, and in 2015 the ratio is 0.25 which is stable.

SOMANY

The above table shows the change in the long-term debt-equity ratio of Somany ceramics the ratio has a change over the period of five years; it has decreased from 0.88 to 0.24 from 2011 to 2015. The company shows a positive change in the ratio decreases in the following years; in 2015 the ratio is 0.24.The Company needs to maintain its ratio for the betterment of the financial position.

CERA

The above table shows the change in the long-term debt-equity ratio of the company, which is decreasing, which is nice for the company, it has decreased for 0.15 to 0.04.which is a positive change for the company.

Table 1.5- Table showing interest coverage ratio of four companies from March 2011 to March 2015

Company/ years	2011	2012	2013	2014	2015
HSIL	4.40	5.18	2.80	2.44	3.07
KAJARIA	3.98	3.50	5.26	7.73	42.74
SOMANY	3.07	2.74	3.34	3.41	5.02
CERA	16.30	13.11	10.56	13.79	14.06

HSIL

The above table shows the deviation in the interest coverage ratio it increases from 4.40 in 2011 to 5.18 in 2012, there is a drastic change in the ratio thereafter, it decreases to 2.80 in 2013 and in 2015 it is 3.07. The company should its interest coverage ratio, as the interest will be paid from the profit.

KAJARIA

The above table shows the deviation in the interest coverage ratio of Kajaria ceramics ltd, the ratio decreases from 3.98 in 2011 to 3.50 in 2012, there is a drastic change in the ratio over the next three years it increases to 7.73 in 2014 to 42.74 in 2015. The company should maintain the ratio, the higher the ratio the better it is for the company.

SOMANY

The above table shows the change in the interest coverage ratio of Somany ceramics the ratio has slightly changed over the period of five years, it has increased from 3.07 to 5.02 from 2011 to 2015. The company shows a positive change in the ratio increases in the following years; in 2015 the ratio is 5.02.The Company needs to maintain its ratio for the betterment of the financial position.

CERA

The above table shows the change in the interest coverage ratio of the company, which is decreasing, which is bad for the financial position of the company; it has decreased for 16.30 to 14.06 which is a negative change for the company.

Table 1.6- Table showing a total debt to owners fund ratio of four companies from March 2011 to March 2015

Company/ years	2011	2012	2013	2014	2015
HSIL	0.55	0.76	0.83	0.82	0.38
KAJARIA	0.90	0.62	0.48	0.12	0.11
SOMANY	1.79	1.21	0.94	0.59	0.55
CERA	0.34	0.30	0.31	0.19	0.17

HSIL

The above table shows the deviation in the total debt to owners fund ratio it increases from 0.55 in 2011 to 0.76 in 2012, there is a slight continuous change in the ratio thereafter, it increases to 0.83 in 2013and in 2015 the ratio decreases to 038. The company should maintain the ratio, the lower the ratio the better it is for the company

KAJARIA

The above table shows the deviation in the total debt to owner's ratio of Kajaria ceramics ltd, the ratio decreases from 0.90 in 2011 to 0.11 in 2015, there is a drastic change in the ratio thereafter, it decreases to 0.12 in 2014 to 0.11 in 2015.

SOMANY

The above table shows the change in total debt to owner's ratio of Somany ceramics the ratio has a change over the period of five years; it has decreased from 1.79 to 0.55 from 2011 to 2015. The company shows a positive change in the ratio decreases in the following years, in 2015 the ratio is 0.55.The company needs to maintain its ratio for the betterment of the financial position.

CERA

The above table shows the change in the total debt to owners ratio of the company, which is decreasing, which is good for the financial position of the company, it has decreased from 0.34 to 0.17.which is a negative change for the company.

Trend Analysis

Table 1.7- Table showing trend analysis on net-worth of four different companies in the ceramic industry

Company/ years	2011	% Change	2012	% Change	2013	% Change	2014	% Change	2015	% Change
HSIL	701.01	100	1013.2	144.53	1089.1	155.36	1211.4	172.8	1435.6	204.79
KAJARIA	222.56	100	281.90	126.66	356.79	160.31	517.58	232.55	722.13	324.46
SOMANY	102.47	100	124.02	121.03	150.76	147.12	220.54	215.22	254.01	247.88
CERA	111.56	100	139.18	124.75	179.51	160.90	223.97	200.76	351.70	315.26

Net worth is the amount by which assets exceed liabilities. Net worth is a concept applicable to individuals and businesses as a key measure of how much an entity is worth.

HSIL

The above table shows the trend analysis in the net worth it increases to 144% in 2012 to 172.8% in 2014, and doubles by 2015 which is 204.79%. It shows a positive change in the funds of the firm thus, depicting a good financial position.

KAJARIA

The above table shows the changes in the net worth of KAJARIA ceramics ltd, the analysis shows a continuous change from 2011 to 2015 it has increased to the extent of 324% in 2015 that is three times from 2011.

SOMANY

The above table shows the trend analysis on the net worth of SOMANY ceramics which has changed over the period of five years, it has increased from to 247.88% in 2015. The company shows a positive increase in financial position.

CERA

The above table shows the trend analysis in the net worth it increases to 124% in 2012 to 200.76% in 2014, and by 2015 it is 315.26%. It shows a positive change in the funds of the firm thus, depicting a good financial position.

Debt to equity ratio is negatively correlated to profitability ratios which imply that if the debt content is increased aggressively it will adversely impact the profitability. Moreover, the companies are exposing themselves to more risk and they can lose control if they do it. Analyzing the correlation between capital structure ratios, Debt to Assets and interest coverage ratios are negatively correlated with debt to equity ratio. But debt to assets ratio is significantly and positively associated with interest coverage ratio. The overall company wise conclusion of companies under study are given as under:-

1. Considering HSIL: Its debt-equity ratio is stable as compared to other companies, and also the company is serving its debt in an efficient manner but in the year 2013 and 2014 there is a decrease in the net profit of the company as the debt increases in 2013 and 2014 but improves in the year 2015. This company is also among the most profitable companies under study which indicates its effectiveness in employing its equity and debt capital. Thus it can be concluded for this company that it has a good mix of capital which is contributing to its profitability in an efficient manner.
2. Taking KAJARIA into account: this company has decreased its debt capital since last five years but its profitability has increased in the manner in which the debt portion of the capital has been decreased indicating that the company is so effective in employing its capital and also points out that there is a perfect mix of capital which should have otherwise contributed to profitability as expected.
3. Analysing the result of SOMANY ceramics: as it observed that this company has been employing more debt when compared to its equity in 2011 but has decreased it over the period of the study. But at the same time this company is very poor as far as services to debt is concerned. On the other hand, considering its overall employment of funds, this company is obtaining a good return on its capital particularly that of shareholder's funds. Considering
4. CERA: this company has the lowest debt-equity ratio, it follows the pecking order theory, it employs for internal funds than debt, thus the profitability decreases over the time. The company should opt for a better capital structure.

Conclusion

From the above study it can be concluded that the company should maintain less debt and more of equity capital, as the company has to pay fixed interest charges on debt, but also the company gets tax exemption on such, thus the company maintain its debt and raise more capital from equity and there should be proper allocation of the funds raised. From the above, it can be concluded that CERA ceramics has the best and optimum capital structure, as it has higher shareholders fund and less debt, thus the company maintains a higher net profit ratio. The company has less unsecured debt and maintains its debt over its equity. The company follows pecking order theory.

Suggestion

The capital structure decision is crucial for any business organization. The decision is important because of the need to maximize returns to various organizational constituencies and also because of the impact such a decision has an organization's ability to deal with its competitive environment. This study result reveals significantly negative between debt and profitability. These findings imply that an increase in debt position is associated with a decrease in profitability, thus, the higher the debt, the lower the profitability increases with control variables. The firm must consider using an optimal capital structure. The optimal capital structure includes some debt, but not 100% debt. In the other words, it is a best debt-equity ratio for the firm, which in turn, will minimize the cost of capital, i.e., the cost of financing the company's operations. In addition, it will reduce the chances of bankruptcy.

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