



A FINANCIAL STATEMENT ANALYSIS of SELECTED CERAMIC COMPANIES OF INDIA

(“Based On Trend Analysis of Common Size Income Statement”)

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Abstract: The term “ceramic” is derived from a Greek Word “**Keramos**” meaning for “pottery which actually in turn was originated from a Sanskrit root- meaning “to burn”. Hence the word “**Keramos**” was to infer the “burned substance” or ‘burned earth’.

“Ceramic” is defined as inorganic, metal and non-metal materials that are typically produced using clays and other minerals from the earth or chemically processed powders”.

Key Words: Ceramic Industries, Common Size Income Statements, Graphical & Trend Analysis

Introduction: Before elaborating the term “Role of Ceramic in India”, few questions listed out below as they will lead to a needed explanation of the said term.

- Can we imagine India without Steel?
 - Can we imagine India without Buildings?
 - Can we imagine India without Electricity, Electronics?
- Can we imagine India without Steel?

-No, thanks to Refractoriness: modern iron, steel and non-ferrous metal production as they would not be possible without the use of sophisticated refractory materials that are used to line high temperature furnaces, channels and ladles. Metals make automobiles, machinery, plants, buildings and other thousands related useful possible things.

Can we imagine India without Buildings?

-No, thanks to brick, cement, tiles and glass: much of the construction industry depends on the use of ceramic materials like bricks, cement, tiles and glass etc. Cement is used for making concrete which in turn is used for roadways, dams, building and dams. Use of ceramic products like in flooring, walls, countertops and fireplaces.

Can we imagine India without Electricity, Electronics?

-No, as again thanking to semi-conductors, superconductors and magnets, the electronic industry would not exist without ceramics. Ceramics can be excellent insulators, semiconductors and superconductors including magnets too. Even lets confirm that it is hard to imagine not having mobile phone, television, computers, laptops and other consumer electronics ingredients and products.

Objective of Study

The objective of the research is to carry out an analysis of components financial statements of selected ceramic companies of India based on common size income statement.

Research Methodology

To undertake the study authors have collected secondary data from the annual reports of five years i.e. 2013-14 and 2017-18 of selected ceramic companies of India. Besides other required information were collected through reference like Financial Literature, articles, websites, magazines and journals.

In this study, the following ceramic companies have been selected for their financial statement analysis purpose.

- 1) Aro Granite Industries Limited (100% E.O.U.)
- 2) Nitco Limited

Literature Review

Review of literature can be just simple summary of the sources, but it usually has an organizational pattern and combiners both summary and synthesis. The review of literature plays a vital role to undertake the study on financial performance analysis of selected companies. The following reviews are made by author from financial analysis perspective for the concerned subject.

1. **William H. Beaver (1966)** also reviewed on financial statements that A financial statement (or financial report) is a formal record of the financial activities and position of a business, person, or other entity. Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis: 1. * A balance sheet, also referred to as a statement of financial position, reports on a company's assets, liabilities, and owners equity at a given point in time. 2. * An income statement, also known as a statement of comprehensive income, statement of revenue & expense, P&L or profit and loss report, reports on a company's income, expenses, and profits over a period of time. A profit and loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the stated period. 3. * Notes to financial statements are considered an integral part of the financial statements.
2. **Rajan and Zingales (1995)** discussed various accounting based measures of leverage and their information-related content. They have suggested that to facilitate the proper measurement of leverage, the measure itself should be based on the objective of

analysis. It cannot be selected randomly. They propound that the ratio of total liabilities to total assets can be considered appropriate if the matter pertains to what is left for the shareholders after liquidation, but it is not at all a good indicator of whether the firm is likely to experience bankruptcy in the near future. They also state that the bills (payable and receivable) which are invariably included for ratio calculations are in fact used only for financial transactions so their inclusion leads to inaccurate assessment of the financial position of firm. There is still one issue of concern since the measure contains liabilities that are not related to financial e.g. pension liabilities, thereby understanding the size of leverage. The ratio of total debt to capital is defined as total debt plus equity is assumed to solve this problem and they opine that it can be seen as the best accounting based proxy for leverage.

Analysis

What is a Common Size Statement?

The figures shown in financial statements viz. profit and loss statement (Income Statement) is converted into % so as to establish each specified component to the total figure of the statement and these statements are called Common Size Statements.

“Common Size Income Statement Analysis”

Aro Granite Industries Limited (100% E.O.U.) Five Years Common Size Income Statement (Rs. In Crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue From Operations	253.55	256.98	217.60	240.52	202.09
Less: Excise Duty/Other Levies	2.22	2.20	2.01	1.86	1.37
Net Revenue from Operations	251.34	254.78	215.59	238.65	200.72
Add: Other Operating Revenues	0	0	0	0	0
Total Operating Revenues	251.34	254.78	215.59	238.65	200.72
Add: Other Incomes	4.67	5.31	1.18	1.33	1.25
Total Revenues (A)	256.01	260.09	216.76	239.98	201.97
Less : Expenditures					
Increase/Decrease in Stock	-2.15	-6.62	-5.21	-12.59	-9.19
Raw Material Consumed	153.69	163.76	133.91	155.25	133.87
Other Expenditures	65.61	69.14	66.94	66.65	63.5
Total Expenditures	217.15	226.28	195.64	209.31	188.18
PBDIT (A) - (B)	38.86	33.81	21.12	30.67	13.79
Less: Finance Costs	5.34	6.25	5.22	5.20	3.85
Less: Depreciation & Amort.	5.16	8.59	9.12	9.10	8.65
Profit Before Tax	28.36	18.97	6.78	16.37	1.29
Less: Total Tax Expenses	7.27	2.28	0.92	3.76	0.11
P.A.T. (Profit After Tax)	21.09	16.69	5.86	12.61	1.18

Nitco Limited

Five Years Common Size Income Statement (Rs. In Crore)

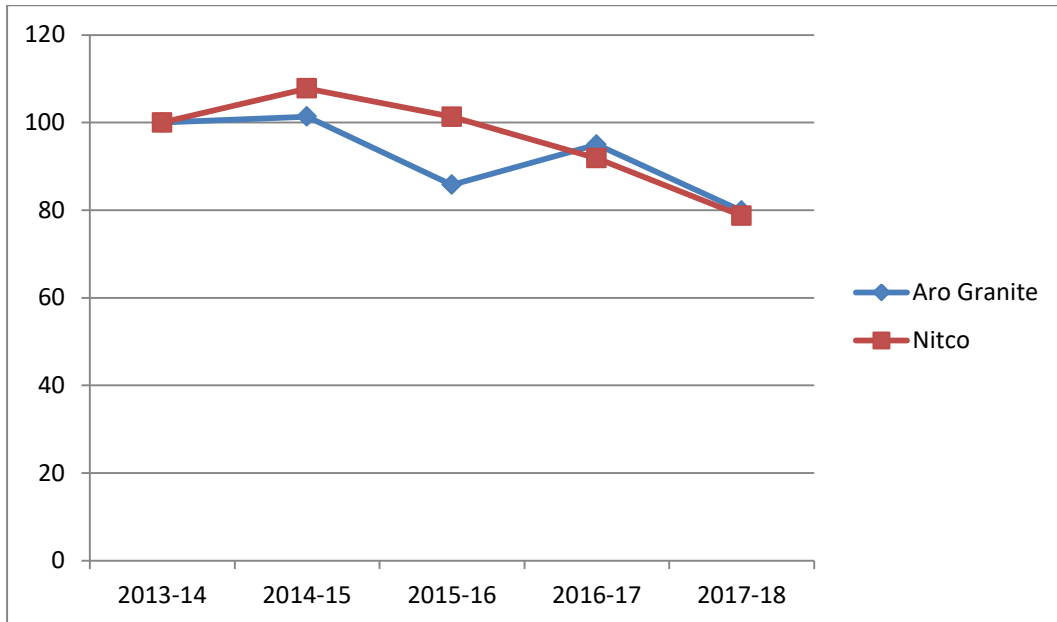
Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue From Operations	860.19	914.31	861.12	740.23	609.57
Less: Excise Duty/Other Levies	85.92	79.89	76.67	29.11	0
Net Revenue from Operations	774.27	834.43	784.44	711.12	609.57
Add: Other Operating Revenues	2.58	3.00	4.26	4.63	0
Total Operating Revenues	776.86	837.43	788.70	715.75	609.57
Add: Other Incomes	1.83	2.00	1.50	1.87	4.79
Total Revenues (A)	778.69	839.43	790.20	717.62	614.36
Less : Expenditures					
Increase/Decrease in Stock	32.14	33.47	-9.21	-8.63	24.80
Raw Material Consumed	205.84	240.41	273.90	222.64	181.50
Other Expenditures	552.54	561.38	505.49	478.00	151.85
Total Expenditures	790.52	835.26	770.18	692.01	358.15
PBDIT (A) - (B)	-11.83	4.47	20.02	25.61	256.21
Less: Finance Costs	150.05	50.31	12.07	8.31	13.86
Less: Depreciation & Amort.	47.43	69.78	62.54	49.67	80.53
Profit Before Tax	-209.31	-115.92	-54.59	-32.37	161.82
Less: Total Tax Expenses	1.57	2.30	1.20	1.19	-22.92
P.A.T. (Profit After Tax)	-210.88	118.22	-55.79	33.56	138.90

“TREND ANALYSIS”

1) **Net Sales/Turnover** (% Change in Every Year)

Co.	2013-14	2014-15	2015-16	2016-17	2017-18
Aro Granite	100.00	101.37	85.78	94.95	79.86
Nitco	100.00	107.77	101.31	91.84	78.73

(Source: Published Annual Reports of Companies)



Interpretation: In 2014-15 an increase was found in turnover of both the companies. But then there is a constant decrease in it till 2017-18. Hence both the companies must try to increase their sales/turnover.

T- test:

Group	Aro	Nitco
Mean	92.392	95.93
Standard Deviation	9.30	11.16
N	5	5
T- value	0.356179509	

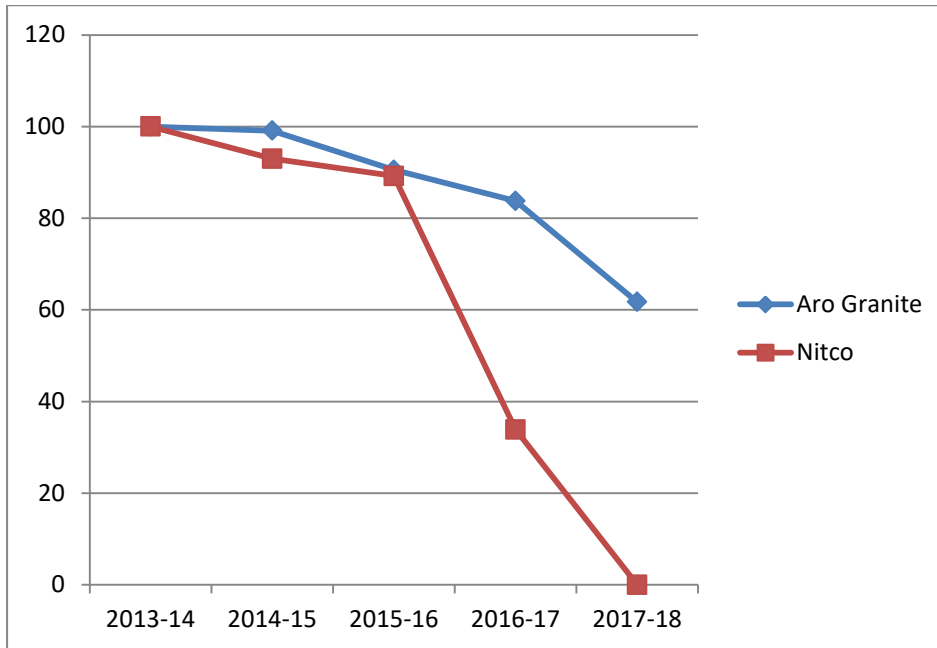
From the above T-test the calculated value is less than table value, hence there is no significance difference between the sales of Aro Granite and Nitco Limited.

2) Excise Duty

(% Change in Every Year)

Co.	2013-14	2014-15	2015-16	2016-17	2017-18
Aro	100.00	99.09	90.54	83.78	61.71
Nitco	100.00	92.98	89.23	33.88	0

(Source: Published Annual Reports of Companies)



Interpretation: The tax liabilities of both the companies have reduced year by year. This exhibit that no much production is made in these year and companies might have taken some rebates or reliefs in excise duty or other levies.

T- test:

Group	Aro	Nitco
Mean	87.024	63.218
Standard Deviation	15.63	44.08
N	5	5
T- value	0.146468047	

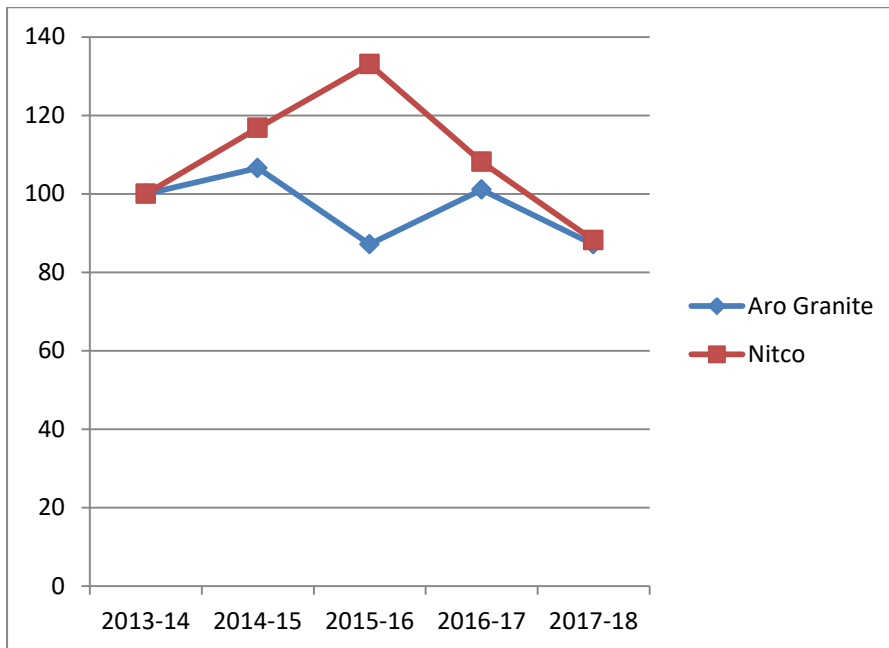
From the above T-test, it is found that the calculated value is less than table value. This shows no significance difference between Aro Granite Industries and Nitco Limited i excise duty/levies liability.

3) Raw Material Consumption

(% Change in Every Year)

Company	2013-14	2014-15	2015-16	2016-17	2017-18
Aro Granite	100.00	106.55	87.13	101.07	87.10
Nitco	100.00	116.79	133.05	108.16	88.18

(Source: Published Annual Reports of Companies)



Interpretation: The raw material of both the companies is exhibiting volatility. Initially, the consumption of raw materials of Nitco Co. have significantly increased in the first three years. Then it shows a constant decrease. Both the companies must give attention on maintaining raw material consumption.

T-Test:

Group	Aro	Nitco
Mean	96.37	109.236
Standard Deviation	8.81	16.995
N	5	5
T- value	0.20369292	

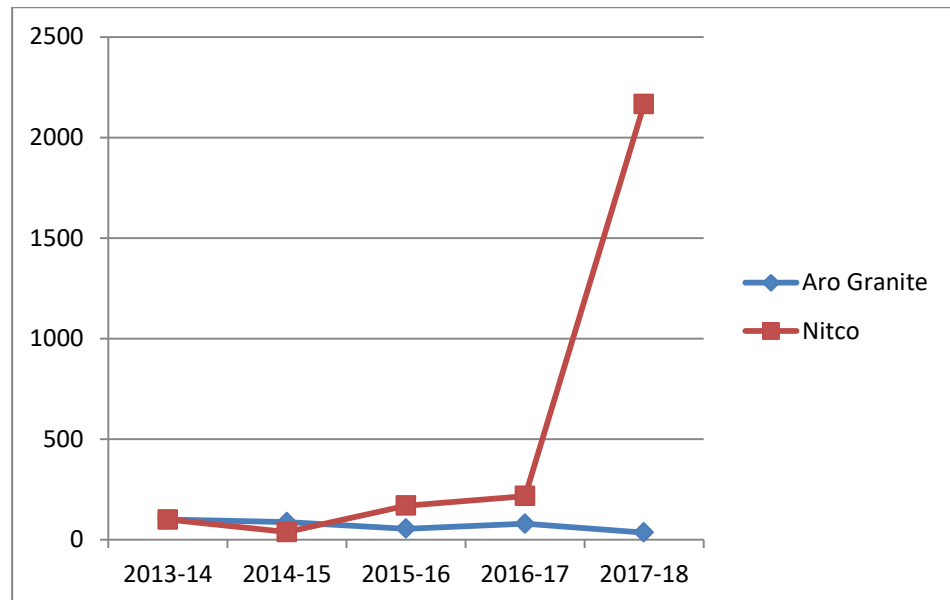
From the above T-test the calculated value is less than table value, which shows that there is no significant difference between raw material consumption.

4) Operating Profit

(% of Change in Every Year)

Company	2013-14	2014-15	2015-16	2016-17	2017-18
Aro Granite	100.00	87.00	54.35	78.92	35.49
Nitco	-100.00	37.78	169.23	216.48	2165.77

(Source: Published Annual Reports of Companies)



Interpretation: The operating profit of Nitco has shown a negative loss due to other excess expenditures. Hence the Nitco Limited should reduce its excess expenditures to augment its profit.

T- test:

Group	Aro	Nitco
Mean	71.152	537.852
Standard Deviation	25.97	912.56
N	5	5
T- value	0.326081862	

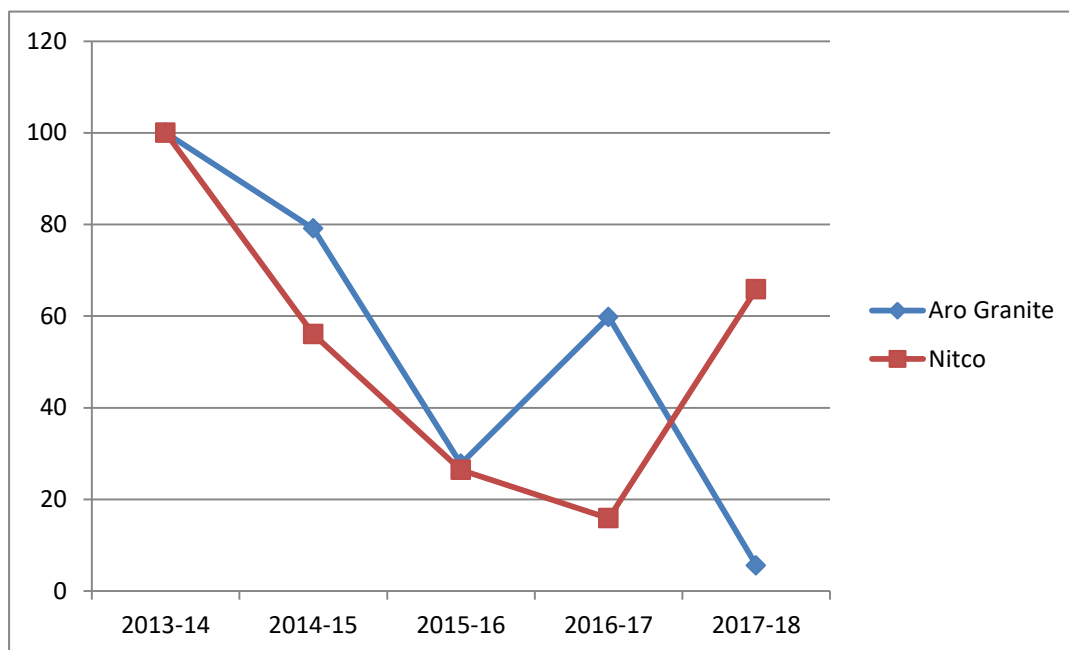
From the above T-test, it is observed that again calculated value is less than table value. Hence, there is no significant difference between operating profit.

5) Profit After Tax (P.A.T.)

(% of Change in Every Year)

Company	2013-14	2014-15	2015-16	2016-17	2017-18
Aro	100.00	79.13	27.79	59.79	5.60
Nitco	100.00	56.06	26.46	15.91	65.87

(Source: Published Annual Reports of Companies)



Interpretation: Since the profit after tax has continuously reduced in the first two years. Then a slight increase was found in the year 2016-17. And finally it was reduced in last year. Whereas the operating profit after tax of Nitco was increased in the last year only. Both the companies should try to increase its profit after tax by reducing its liability towards taxes.

T- test:

Group	Aro	Nitco
Mean	54.462	52.86
Standard Deviation	38.11	33.41
N	5	5
T- value	0.931205044	

From the above T-test, the calculated value is less than table value. Hence, there is no significant difference between profit after tax of both the companies.

Conclusion: The word “*performance*” refers to presentation of a qualitative and analytical result achieved by the management of company and “*financial efficiency*” which is a measure of the firm’s ability to translate its financial resources into mission related activities. So, the financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. After studying and analyzing the different components of income, finally it is concluded that both the companies do not hold better financial position in terms of profit earning capacity.

Suggestions

- 1) Both the companies has to increase its sales by making some sales-promotion expenses and by offering some discounts and giving some sales initiatives.

- 2) Necessary steps must be taken by both the companies in maintaining proper and ideal raw material consumption ratio.
- 3) Nitco Limited must reduce its excess expenditures to augment its profit.
- 4) A tax planning has to be made in a proper direction by taking some tax advantages to lead to a significant positive change in profit after taxes of both the companies.

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