North Asian International Research Journal of Social Science & Humanities

ISSN: 2454-9827 Vol. 4, Issue-1 January-2018

IRJIF: 3.015

Index Copernicus Value: 57.07 UGC Journal No: 48727

"PROFITABILITY AND LIQUIDITY ANALYSIS OF RAMSARUP INDUSTRIES LIMITED" - A CASE STUDY

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ABSTRACT:

Ramsarup Industries Ltd. is one of the largest manufacturers of steel wire and leading player in TMT manufacturing in Eastern India. It has been observed that the Ramsarup Industries Ltd. is facing a negative trend of profitability over the years. To find out the cause of adverse profitability the researchers have used several ratios for liquidity and profitability analysis and also tried to find out whether is there any significant relation between liquidity and profitability used Motaal Comprehensive Test and Spearman Rank Co-relation as statistical tools and also. The researchers have found a positive relation between liquidity and profitability. They also found negative ROA and ROCE which indicates the earning capacity of the assets and capital employed is negative and needed to be improved. They suggest to make effort for increasing turnover to strengthen the profitability and liquidity position.

Key Words: ***Profitability, Liquidity, Motaal Comprehensive Test, Ratios, Spearman Rank Correlation.***

INTRODUCTION:

Being a developing country India needs a huge development in its infrastructure sector as it is the primary vehicle to develop the economy of a country. To achieve the goals India needs a rapid growth in industrialization. For the development of infrastructure and industrializations, a large number of iron and steel is required as Iron and steel are the basic requirements for all types of construction and manufacturing activities. Ramsarup Industries Ltd. producing iron and steel products, wire products wire, pig iron, sponge iron, TMT bars, galvanized and black wires and thus is playing a key role in this regard. Over the last four decades Ramsarup Group of Companies which is the combination of two companies (viz. Ramsarup Industries Ltd. and Ramsarup Vyapaar Ltd.) had made a remarkable growth by exceeding annual turnover of Rs. 2000 Crores and net worth of Rs. 4500 Crores. It is one of the largest manufacturers of steel wire and a leading player in TMT manufacturing in Eastern India. But over the years Ramsarup Industries Ltd. is showing a tendency of losses which is definitely a big concern not only for the stockholders but also for the Indian economy. In the financial year 2011-12 the net loss was Rs. 382.15 Crores. In 2012-13, the loss was increased to Rs. 430.59 Crores which is further increased in 2013-14 to Rs. 489 Crores. The only ray of hope is that the trend of losses is decreasing from the financial year 2014-15 which shows a net loss of Rs. 179.91 Crores and in 2015-16 the net loss was only Rs. 42.33 Crores. As it is known that the profitability affect on the liquidity so it is to be expected that negative profitability may curse the liquidity of Ramsarup Industries Ltd. So the researchers in this article are trying to analyze the profitability and liquidity of Ramsarup Industries Ltd. to find out the problems and to suggest remedial.

OBJECTIVES OF THE STUDY:

Iron and Steel develop the basic infrastructure of a country. Ramsarup Industries Ltd is one of the renowned companies in this sector. But the Company is now facing huge losses from a few years. So it is very important to pin out the actual position of profitability and efficiency of the company's performance. Along with that, company's short term lenders, workers and management are also eager to know liquidity position of the organization. So this is the crucial objective lying with the study of Profitability and Liquidity position of Ramsarup Industries Ltd.

REVIEW OF LITERATURE:

The researchers have studied many research papers of other researchers relating to the fields of iron and steel industries and on liquidity & profitability analysis, a few of them have mentioned here:

Bhunia (2007) in his study of the liquidity position of the public sector iron and steel industries found that the liquidity position of this sector is not satisfactory. He had suggested some remedial measures to overcome but his study was only concentrate on the liquidity analysis whereas other factors which may affect the efficiency of a industry had not been considered.

Hyvonen and Langcake (2012) – on their article "Indian Steel Industries" revealed that it is very unpleasant for India which is the world's fourth largest steel producer with very low consumption of steel which needed to be increased for economic development of the country. They also found that though has a huge reserve of iron-ore but for utilization of this reserve, the Iron & Steel industries are still in need of import coke coals which is very essential fuel for production.

Arab, et al (2015) conducted a study on the basis of liquidity ratios, solvency ratios and profitability ratios of five (viz. SAIL, Tata Steel Ltd., JSW Steel Ltd, Jindal Steel and Alloy Ltd and Bhushan Steel Ltd.) selected leading iron and steel companies in India for the period of ten years starting from 2003-04 to 2012-13. From the test of hypothesis (One-way ANOVA), it was found that there is a great or vital difference in those companies in terms of liquidity, solvency, activity and profitability position.

Khan and Ali (2016) in their article "The impact of Liquidity on profitability of Commercial Banks in Pakistan" observed a significant relation between liquidity and profitability growth. Their suggestion for increasing the profitability is require maintaining a sufficient amount of liquid assets.

Cherian and Kallarackal (2017) made study on liquidity and profitability the leading cattle feed manufacturing firm in Kerela. According to the researchers, the liqudity of the firm was not very good as different liquidity ratios are not very low from the standerd ratios. Liqudity position of the firm was reached at pick position in the year 2009-10 and falls at bottom line in the year 2012-13. Again, there is also persist a position of relationship between liqudity and profitibility of cattle feed manufacturing firm.

METHODOLOGY:

The case study of Ramsarup Industries Ltd is based on secondary data collected from audited Annual Accounts of the company & Profit & Loss Account and Balance Sheet which are available in the website of money control (www.moneycontrol.com).The study covers a period of five years starting from 2011-12 to 2015-16. The available data have been analyzed by using various financial ratios as managerial tools with graph or charts. Motaal's Comprehensive test of liquidity position is used to analyze the liquidity position of the company systematically. Spearman's Rank Correlation is used to investigate the relationship between liquidity and profitability.

DATA ANALYSIS AND FINDINGS:

a) **Profitability analysis:** The Oxford Dictionary of Finance and Banking interprets the word "profitability "as the capacity or potential of a project or an organization to make a profit. Every organization is concerned with its profitability. One of the most frequently used tools of financial ratio analysis is profitability Ratio which is used to determine the company's bottom line and its return to its investors. Profitability ratios show a company's overall efficiency and performance. Company is operating profitable if its return is more than cost of capital or IRR. Profitability analysis measures the amount of profit earned due to the efficiency of any operation in a business. It mainly helps in analyzing the available information to evaluate and improve the profits in an organization. Here, the profitability of Ramsarup Industries Ltd. is measured with the help of ROCE ratio, ROA ratio, EPS etc. These are useful tools for the shareholders (Actual & Potential), potential takeover bidders, lenders, competitive firms and Management etc. Table-1 is indicating the performance of assets and capital employed to earn the profit over the last five years.

Table-1: Growth of ROA and ROCE

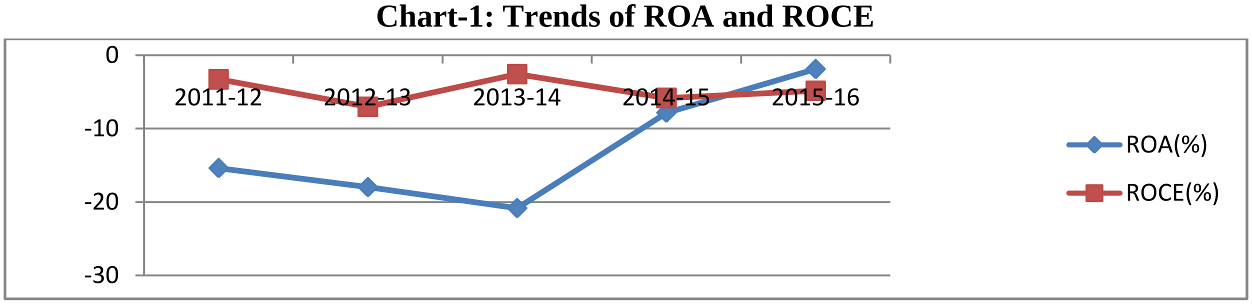
Name of Ratios	31.03.2016	31.03.2015	31.03.2014	31.03.2013	31.03.2012
ROA (%)	(1.88)	(7.83)	(20.84)	(17.98)	(15.38)
ROCE (%)	(4.85)	(5.84)	(2.60)	(7.03)	(3.31)

I. Return on Assets (ROA) indicates the earning capacity of the company on Total assets .It shows the percentage of profit of a company earns in relation to its overall resources. Ramsarup Industries Ltd shows a negative ROA which is less than zero (0). So it is a very alarming situation for the company that the management is unable to use the company‘s total assets efficiently or to earn sufficient profit.

II. Return on capital Employed (ROCE) is a profitability ratio that measures how efficiently a company can generate profit from its capital employed by comparing Net Operating Income after Tax with Net Capital employed. Higher this ratio indicates more capacity to earn profit and management efficiency. But all ROCE ratios for five (5) years reveal a negative figure. It assures that the company’s overall performance is not satisfactory. As it is much lower than zero (0). Company’s profit is too much poor which arises mainly due to falling trend in sales.

Now, converting the Table-1 to Chart-1 to show the trends of ROA and ROCE, we may find something amazing:

Chart-1: Trends of ROA and ROCE



The graph shows an up-liftment trend which is a good signal. So Management should concentrate urgently to make ROA positive and maintain more than industry average rate.

Taking into consideration of the net profits and the operating profits in Table-2 we may find:

Table-2: Growth of Net Profit and Operating Profit

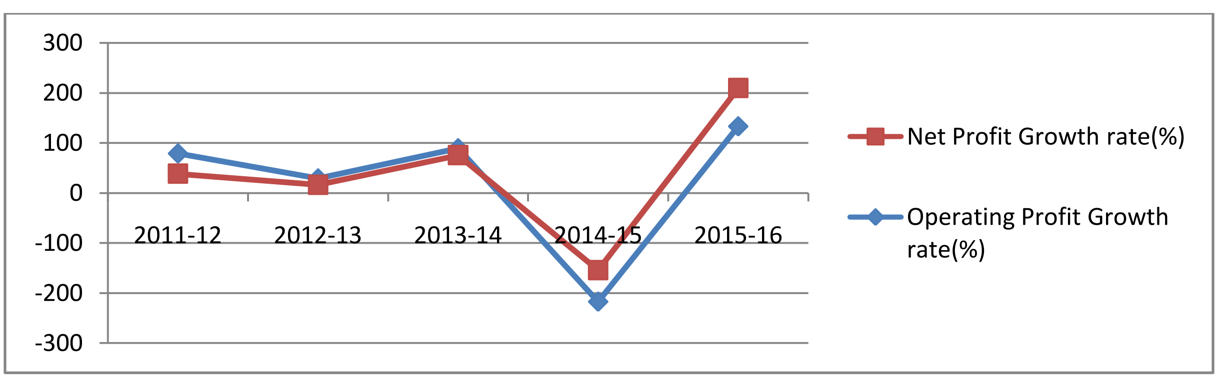
PARTICULARS	31.03.2016	31.03.2015	31.03.2014	31.03.2013	31.03.2012
Net Profit (Rs in corer)	(42.33)	(179.91)	(489.00)	(430.59)	(382.19)
Net Profit Growth Rate (%)	76.47	63.21	(13.57)	(12.66)	(40.40)
Operating Profit (Rs in corer)	1.95	(5.93)	(1.87)	(16.81)	(23.59)
Operating Growth Rate (%)	132.80	(217.52)	88.89	28.75	78.58

I. Higher Net Profit and Operating profit are another two indicators of company's profitability position. Lower or negative profit indicates management inefficiency which reduces company's goodwill and share price in stock market

II. Operating Profit is the pin which indicates the actual position from operation of the business. Ramsarup Industries Ltd suffers huge operating losses in past 4 years but its curves tries to reach a positive zone from negative zone. In the year2016, company earns very minimum operating profit (i.e. Rs1.95crore) after bearing huge losses for 4 years. Although, it is not satisfactory situation as it becomes net loss for that years (Rs 42.33crore).So the company should reduce its non-operating expenditure or to increase its net proceeds from sale.

Now, converting the Table-2 to Chart-2 to show the trends we may find:

Chart-2: Trends of Net Profit and Operating Profit



Ramsarup Industries Ltd had faced huge losses in last 5 years but there is a positive slope on the graph of Operating profit growth rate and Net profit growth rate. It is a light of hope that company is trying to overcome its dark phases. Its Net profit growth rate for the year, 2014-15 and 2015-16 is positive. It reveals that management performed well in these two years.

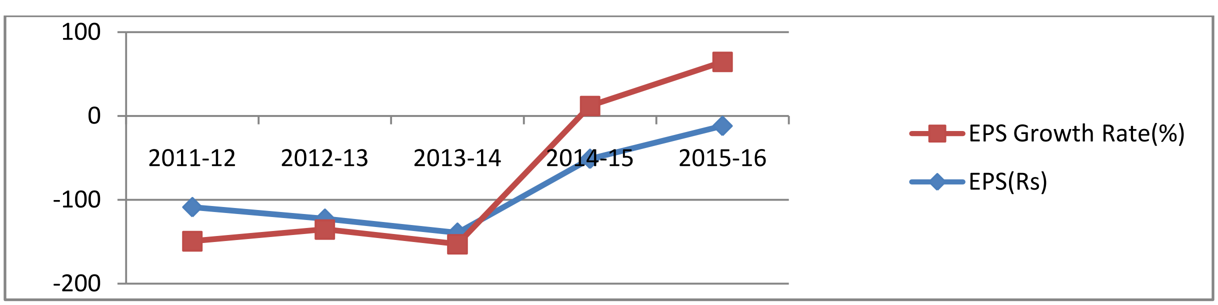
One of the prime factors of indicating profitability of a industry is EPS. The performance of this factor is highlighted in Table-3, below:

Table-3: Growth of EPS

PARTICULARS	31.03.2016	31.03.2015	31.03.2014	31.03.2013	31.03.2012
EPS (Rs)	(12.07)	(51.29)	(139.40)	(122.75)	(108.95)
EPS Growth rate (%)	76.47	63.21	(13.57)	(12.66)	(40.40)

Earnings Per Share (EPS) indicates company's profitability, optimum use of assets, management, efficiency and reputation of the company (Goodwill).so lower or very minimum EPS indicates inefficiency of management and adverse situation of the company. As the shareholders get very minimum or no return for their investment, so they lose confidence about the company. Ramsarup Industries Ltd provides negative EPS for last 5 years. It is not expected situation for the company. Its EPS growth rate also remains negative in consecutive three years 2011-12, 2012-13 and 2013-14. But it earns positive growth rate for the last 2 years 2014-15 and 2015-16 which is good situation for the company but not a position of satisfaction. EPS negative mainly arises due to losses of past years of the company. A negative EPS tells you exactly how much money the company has lost per share of outstanding stock which is also known as "Net loss per share". A net loss decreases the value of the firm, which typically lowers the value of stock.

Chart-3: Trends of EPS



EPS curves and EPS growth curve have a positive slope and EPS growth rate for the year 2014-15 & 2015-16 are 76.47% and 63.21% respectively. So it is a hope of coming bright situation. Neverthlessly, companies want to make money not lose it. It's safe for investors to assume that a negative EPS is not a good thing. But sometimes a negative EPS is not a big deal. As the Ramsarup Industries Ltd reduces its losses and negative EPS day by day so it is not necessarily a matter of panic. This situation may arise due to writing down the values of major assets or to pay a major liabilities and it may be occurred due to continuous reduction of earning or sale of product.

b) **Liquidity analysis:** Liquidity refers to the ability of a firm to meet its obligations in short run, usually one year. The liquidation analysis is useful to short term creditors, lenders including Bank and others financial institutions and Management. According to the Oxford Dictionary of finance and Banking, "Liquidity" means – the extent to which an organization's assets are liquid, enabling it to pay its debts when they fall due and also to move into new investment opportunities. Liquidity management involves the amount of investment in this group of assets to meet short term maturing obligations of creditors and others. It goes without saying that if the maturing obligations are met continuously as and when they become due, creditors and others will have a feeling of confidence in the financial strength of the firm which will sustain credit reputation of the organization. But failure to meet such obligation on a continuous basis will affect the reputation and hence the credit worthiness of the company which will in turn makes it more difficult to finance the level of current assets from short term sources. The important liquidity Ratios are Current ratio, Quick Ratio and Fixed Assets (FA) to Current Assets (CA) ratio etc. These ratios are being shown in Table-4, below:

Table-4: Current ratio, Quick Ratio & Fixed Assets (FA) to Current Assets (CA) ratio

NAME OF RATIOS	31.03.2016	31.03.2015	31.03.2014	31.03.2013	31.03.2012
Current ratio	0.0171	0.0161	0.0189	0.0285	0.2435
Quick Ratio	0.0161	0.0151	0.0168	0.0252	0.2277
Fixed Assets to CA Ratio	36.9256	39.9798	36.3739	28.2511	4.122
Cash to Current Assets Ratio	6.36	2.45	3.8	5.23	1.08

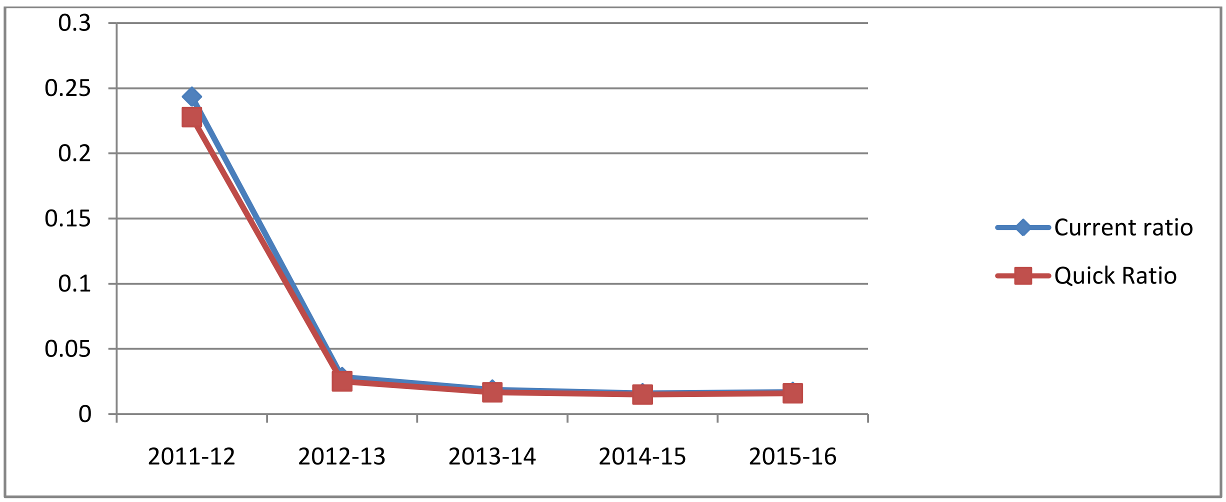
I. Current Ratio of Ramsarup Industries ltd was falling from the year, 2012 up to the year 2014. But it tries to improve in the year, 2016 slightly. The conventional ratio is taken at 2:1 and average Current ratio is

2.4:1 for last 5 years in Iron & Steel Industries. But all five current ratios of the particular company are much lower than conventional and Average Ratio.

II. In case of quick Ratio, conventional ratio is 1:1 and average ratio is 0.54:1 for Iron & Steel Industry. But the company can't reach any of them. These indicate that the company is facing difficulty to pay short term obligations like Trade payable, short term borrowings and other Current Liability. It arises due to much more Current Liability than Current Assets.

In Chart-4, it has been clear that the Current ratios and quick Ratios over the years are showing a negative trends which is really a concerning fact for the investors and creditors.

Chart-4: **Trends of Current Ratios and Quick Ratios**

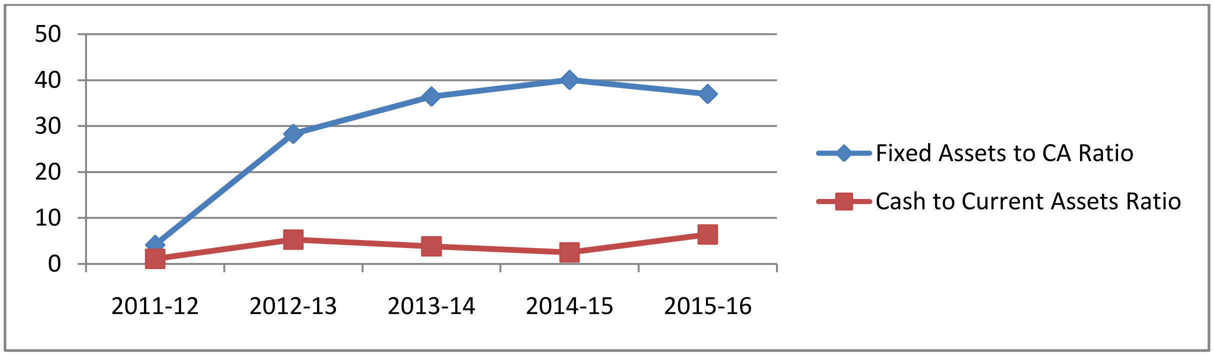


III. Fixed Assets to Current Assets (FA to CA) ratios are increasing year to year. That means Company invests much more fund on Fixed Assets. It may be occurred for improving productivity and profitability of the company. But the company always should maintain the standard liquidity position to serve day to day obligation or expenditure.

IV. Cash to Current Assets ratio follows a zigzag line i.e. ups and downs throughout the five years of Ramsarup Industries Ltd. It is very tuff to mention any standard ratio in this respect. The adequacy of cash with respect to other items of current assets can be judged from past experience. In a comfortable financed firm it will be 5% to 10 %(not run less than 5% of the Current Assets). But in case of concerned company it is just cross 5% of the Current Assets in the year 2013 and 2016.So it concludes that cash position of Ramsarup Industries Ltd is not healthy. It creates trouble to pay regular wages and salary to the workers of the organization and other necessary expenditure. This will affect adversely to the production of iron and TMT bars of Ramsarup Industries Ltd.

In Chart-5, it has been cleared that FA to CA ratios and Cash to Current Assets ratios shows an ups and down trend over the study period which is also not a good sign for the investors.

Chart-5: Trends of FA to CA ratios and Cash to Current Assets ratios



According to MOTAAL comprehensive test, a process of "Ranking" is used to arrive more comprehensive measures of liquidity in which three factors are combined in points score.

Table-5: Calculation of different ratios for comprehensive test

PARICULARS	31.03.2016	31.03.2015	31.03.2014	31.03.2013	31.032012
Working Capital (Rs in corer)	(3367.61)	(2211.68)	(2265.74)	(2283.24)	(1952.8)
Current Assets(Rs in corer)	58.68	55.32	62.29	80.82	473.76
(a)WC to CA ratio (%)	(57.34)	(39.98)	(36.37)	(28.75)	(4.25)
Stock(Rs in corer)	3.5	3.5	7.00	9.36	30.71
(b)Stock to CA Ratio (%)	5.96	6.33	11.24	11.58	6.48
Liquid Assets(LA)(Rs in corer)	55.18	51.82	55.29	71.46	443.05
(c)LA to CA ratio (%)	94	93.67	88.76	88.42	93.52

a) A high Working Capital (WC) to Current Assets (CA) ratio show relatively favorable position But here all WC to CA ratio are negative. So ranking should be done in reverse order.

b) On the other hand, a low stock to CA ratio indicates a more favorable position and hence ranking is done in that orders.

Again High liquid Assets (LA) to CA ratio indicates more suitable position so ranking should be done in that manners.

The ultimate ranking is done on the principle that the lower the points scored, the more favourable is the position and vice-versa.

Table-6: Final Ranking

YEAR	RATIOS (%)			LIQUIDITY RANKS			TOTAL RANKS	ULTIMATE RANKING
	(a) WC to CA	(b Stock to CA	(c) LA to CA	(a)	(b)	(c)		
2015-16	(57.34)	5.96	94	5	1	1	7	1
2014-15	(39.98)	6.33	93.67	4	2	2	8	3
2013-14	(36.37)	11.24	88.76	3	4	4	11	4
2012-13	(28.25)	11.58	88.42	2	5	5	12	5
2011-12	(4.12)	6.48	93.52	1	3	3	7	2

It appears from the ultimate ranking that the liquidity position in the year ,2016 was the best followed by the year,2012,2015,2014 and 2013 respectively in that order. Although, short term liquidity position is going to improve slowly but management should enquire why Working Capital is negative. Thus the fluctuation in the liquidity position over the years may be a point of investigation for financial affairs of the company.

Table-7: Statement Showing the Relationship between Liquidity and Profitability Position of Ramsarup Industries Ltd:

YEAR	ROCE (%)	Current Assets to Total Assets (CATA) Ratio (%)	Rank on ROCE (x)	Rank on CATA (y)	d = (x-y)	d^2
2015-16	(4.85)	2.64	3	4	(1)	1
2014-15	(5.84)	2.44	4	5	(1)	1
2013-14	(2.60)	2.68	1	3	(2)	4
2012-13	(7.03)	3.44	5	2	3	9
2011-12	(3.31)	19.52	2	1	1	1
					$\Sigma d = 0$	$\Sigma d^2=16$

Spearman Rank Co-relation =

$$\rho \text{ (Rho)} = 1 - \frac{6d}{n(n^2-1)}$$

$$= 1 - \frac{6x16}{5(25-1)}$$

$$= 1 - \frac{96}{120}$$

$$= 1 - 0.8$$

$$= 0.2$$

Here, x = Rank on ROCE

y = Rank on CATA

d = (Rank on ROCE - Rank on CATA)

or d = (x- y)

Now, value of Spearman Rank Co-relation (ρ) is 0.2 which indicates that there is positive correlation between liquidity and profitability of the concerned company. It signifies that increase in profitability also increases liquidity of the company and vice- versa.

CONCLUSION AND SUGGESTIONS:

Profitability and liquidity position of Ramsarup Industries Ltd. is very poor. But company is implementing all the measures or steps to wipe out this dark phases. The company should also focus on the escalating turnover to strengthen the profitability and liquidity position. It is a good signal that the company is reducing losses regularly enlarging their investment in Fixed Assets. Side by side, it should be considered that liquidity position of the company should be maintained in a standard position. As there is a positive relationship between liquidity and profitability so a good liquidity position is helpful for profitability to some extent. The researchers are advising the financial manager to provide proper attention to collect dues from Debtors and to increase total volume of sales for maintaining a sustainable cash position in the organization. The liquidity position of firm is largely affected by the composition of Current Assets. So it is desirable to study the distribution of Current assets to determine the liquidity position exactly. The company should try increases its amount or volume of sale and to earn the sufficient amount of profit to maintain the EPS in comparable position with other companies of Iron & steel industries.

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