



Continuous issue-15 | September- December 2015

## A PROFITABILITY ANALYSIS of SELECTED CERAMIC COMPANIES OF GUJARAT STATE

*("Based On Common Size Income Statement Concept")*

### ABSTRACT

The term "**ceramic**" is derived from a Greek Word "**Keramos**" meaning for "pottery which actually in turn was originated fromm 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".

### Role of Ceramics in India:

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.

The ceramic industry is about 150 years old and is mainly concentrated at Khurja in Uttar Pradesh and Morbi in Gujarat. Approximately it covers 11 districts of Gujarat which have the spread of ceramic industries and more so in particular the three places namely Morbi in Rajkot district Thangadh in Surendranagar district and Himatnagar in Sabarkantha district. which have locational inertia of ceramic industry for in-depth field survey.

### Objective of Study

The objective of the research is to carry out an analysis of financial statements of selected ceramic companies located in the Gujarat State based on common size concept.

### Research Methodology

To undertake the study authors have collected secondary data from the annual reports of two years i.e. 2009-10 and 2013-14 of selected ceramic companies of Gujarat State. 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. ASIAN GRANITO INDIA LIMITED
2. KAJARIA CERAMICS LIMITED

### What is a Common Size Statement?

The figures shown in financial statements viz. profit and loss statement and balance sheet are converted into % so as to establish each element to the total figure of the statement and these statements are called Common Size Statements.

### PROFITABILITY ANALYSIS

#### “COMMON SIZE INCOME STATEMENT ANALYSIS”

##### 1. ASIAN GRANITO INDIA LIMITED.

#### *Common Size Income Statement of Asian Granito India Limited (Rs. In Crore)*

Particulars	March- 14 (2013-14)	March- 13 (2012-13)	March- 12 (2011-12)	March- 11 (2010-11)	March- 10 (2009-10)
<b>Gross Sales</b>	843.31	798.66	705.22	543.02	432.18
Less: Sales Return	0.00	0.00	0.00	0.00	0.00
Less: Excise Duty	84.17	90.30	81.42	62.65	25.80
Net Sales	759.14	708.36	623.80	480.37	406.38
<b>Expenditures:</b>					
Increase/Decrease in Stock	9.91	-21.93	-18.95	-6.52	-9.04

Raw Material Consumed	450.37	386.08	321.01	210.64	155.93
Selling and Distribution Expenses	31.67	39.81	37.01	39.62	66.77
Total Expenditures	695.84	638.51	557.07	422.28	359.20
<b>PBDIT</b>	63.3	69.84	66.73	58.09	47.18
Operating Profit	65.09	72.28	69.25	60.06	50.58
Interest	21	25.21	20.35	13.36	9.56
<b>PBDT</b>	44.1	47.07	48.90	46.70	41.02
Depreciation	21.6	21.69	21.89	20.29	15.20
<b>Profit Before Tax</b>	22.5	25.38	27.01	26.41	25.83
Provision for Tax	8.35	8.27	8.96	6.31	6.79
<b>P.A.T. (Profit After Tax)</b>	14.14	17.11	18.05	20.09	19.04

### 1. KAJARIA CERAMICS LIMITED.

#### *Common Size Income Statement of Kajaria Ceramics Limited (Rs. In Crore)*

Particulars	March- 14 (2013-14)	March- 13 (2012-13)	March- 12 (2011-12)	March- 11 (2010-11)	March- 10 (2009-10)
<b>Gross Sales</b>	2005.33	1709.27	1403.69	1005.50	766.75
Less: Sales Return	0.00	0.00	0.00	0.00	0.00
Less: Excise Duty	125.56	119.06	88.97	52.23	31.22
Net Sales	1877.89	1588.20	1312.79	953.28	735.54
<b>Expenditures:</b>					
Increase/Decrease in Stock	24.31	-0.55	-11.95	1.75	4.06
Raw Material Consumed	1019.02	812.98	698.05	535.96	360.29
Selling and Distribution Expenses	62.67	58.52	50.62	44.43	44.80
Total Expenditures	1644.67	1366.28	1112.21	804.89	620.61
<b>PBDIT</b>	233.22	221.92	200.58	148.39	114.93
Operating Profit	239.71	225.35	201.71	148.77	120.62
Interest	26.42	35.91	47.12	30.09	42.47
<b>PBDT</b>	213.29	189.44	154.60	118.68	78.15
Depreciation	36.49	38.36	37.08	29.50	26.71
<b>Profit Before Tax</b>	176.81	148.04	117.52	89.18	51.44
Provision for Tax	60.06	47.49	36.80	28.51	15.59
<b>P.A.T. (Profit After Tax)</b>	116.74	100.55	80.72	60.66	35.85

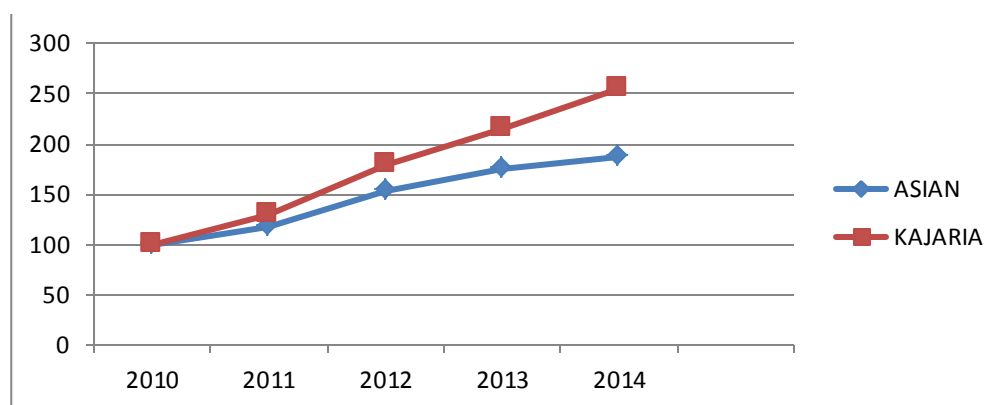
## “GRAPHICAL ANALYSIS”

### (1) Net Sales/Turnover

#### Net Sales/Turnover (% Change in Every Year)

Company	2010	2011	2012	2013	2014
Asian	100	118.21	153.5	174.31	186.81
Kajaria	100	129.6	178.48	215.92	255.31

(Source: Computed from the published annual reports of Companies.)



**Interpretation:** Table 1 Shows that the Turnover of **Kajaria Co.** has been rapidly growing and it has reached more than 2.5 time of Turnover of 2010 in 2014. Conversely, the Turnover of **Asian Co.** has reached to 186.81% in from 2010 to 2014 but it has not secured even double than it was originally in 2010. The **Asian Co.** requires more concentration to increase its efficiency. So that it can achieve the level what **Kajaria Co.** has achieved.

#### T- test:

Group	Asian	Kajaria
Mean	146.56	175.86
Standard Deviation	36.78	62.89
N	5	5
df	8	
T- value	0.8992	

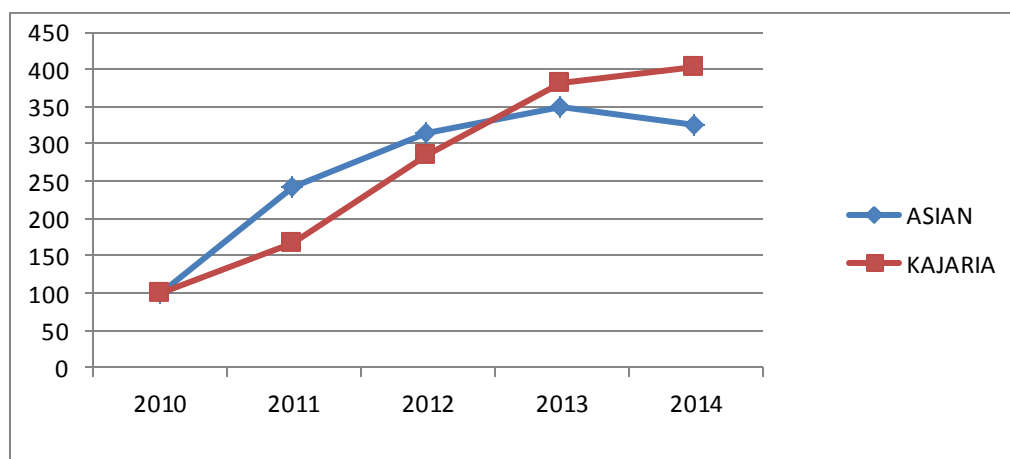
From above t-test, t calculated value is less than table value. So, there is no significance difference between Asian and Kajaria in net sale to turnover.

### (1) Excise Duty

#### Excise Duty (% Change in Every Year)

Company	2010	2011	2012	2013	2014
Asian	100	242.83	315.58	350	326.24
Kajaria	100	167.30	284.98	381.36	402.18

(Source: Computed from the published annual reports of Companies.)



**Interpretation:** It is analyzed that the payment of Excise Duty has been continuously increasing year by year from 2010 to 2013 however the Excise duty liability of **Asian** has been raising at a lower growth rate and in 2014 the payment of Excise duty has reduced however Production was increased in 2014 as per table-3 this shows good tax initiatives gained by **Asian** but **Kajaria** has been continuously increasing its Excise duty liability year by year. Hence, **Kajaria** should take necessary steps for proper tax shields and other necessary benefits.

#### T- test:

Group	Asian	Kajaria
Mean	266.93	267.16
Standard Deviation	101.52	131.82
N	5	5
df	8	
T- value	0.0031	

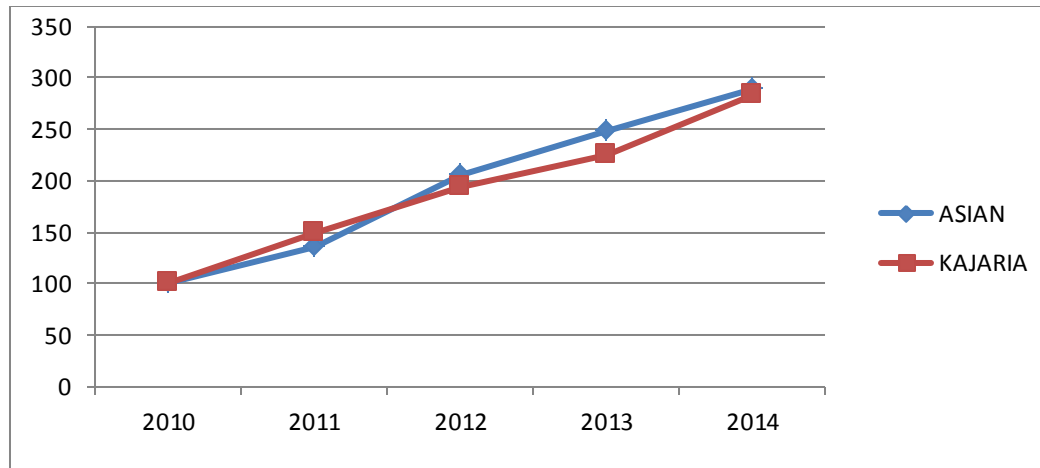
From above t-test, t calculated value is less than table value. So, there is no significance difference between Asian and Kajaria in excise duty.

#### Raw Material Consumption

##### Raw Material Consumed (% of Change In Every Year)

Company	2010	2011	2012	2013	2014
Asian	100	135.09	205.87	247.6	288.83
Kajaria	100	148.76	193.75	225.65	282.83

(Source: Computed from the published annual reports of Companies.)



**Interpretation:** As far as Raw Material Consumption is concerned, it is observed that Raw Material usage level has been continuously increasing from year 2010 to 2014 of both the company and both the companies have achieved almost an however both the company should try to achieve an efficient and result oriented sales in the forthcoming year.

#### T-test:

Group	Asian	Kajaria
Mean	195.48	190.20
Standard Deviation	77.95	70.18
N	5	5
df	8	
T- value	0.1126	

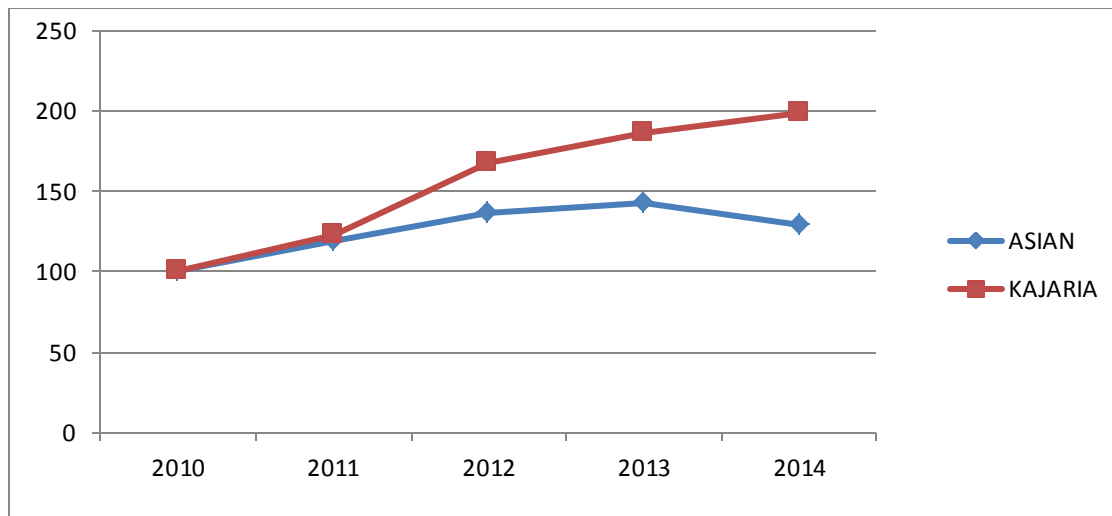
From above t-test, t calculated value is less than table value. So, there is no significance difference between Asian and Kajaria in raw material consumption.

#### (1) Operating Profit

##### Operating Profit (% of Change in Every Year)

Company	2010	2011	2012	2013	2014
Asian	100	118.74	136.91	142.9	128.68
Kajaria	100	123.34	167.23	186.83	198.73

(Source: Computed from the published annual reports of Companies.)



**Interpretation:** Operating Profit is normally called P.B.I.T. Profit Before Interest and Taxes which shows the profitability of the company and sufficient profit of the company to pay all non-operational and exceptional items including Interest and income tax liability.

**Kajaria Co.** has been showing good profitable position in last 5 years as profit has been continuously increasing as it is almost double in 5 years.

However, **Asian Co.** has reached only 1.25 more in last 5 years this because of reduction in profit in 2014 as compared to 2013 which shows not good profitable position so **Asian Co.** must focus on its profit policies and takes proper profit targeted actions

#### T- test:

Group	Asian	Kajaria
Mean	125.45	155.25
Standard Deviation	16.88	42.16
N	5	5
df	8	
T- value	1.4675	

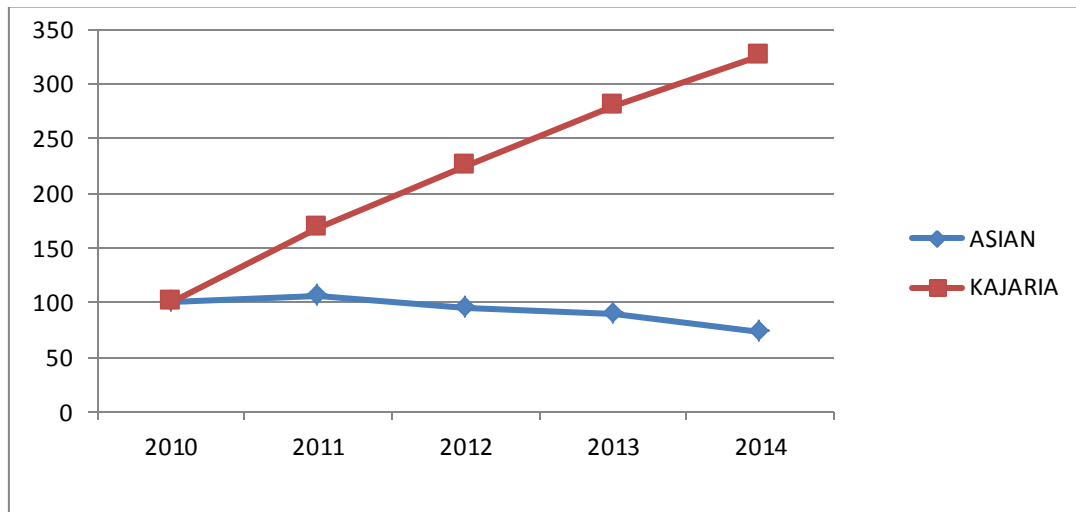
From above t-test, t calculated value is less than table value. So, there is no significance difference between Asian and Kajaria in operating profit.

#### (2) Profit After Tax (P.A.T.)

##### P.A.T. (% of Change in Every Year)

Company	2010	2011	2012	2013	2014
Asian	100	105.51	94.8	89.86	74.26
Kajaria	100	169.21	225.16	280.47	325.63

(Source: Computed from the published annual reports of Companies.)



**Interpretation:** The Profit After Tax (P.A.T.) of **Asian Co.** has been proved to be very poor as it no doubt increased in 2011 and then it started decreasing badly from 2011 to 2014 and gone down to 74.26% in 2014 from 100% in 2010. The **Asian Co.** therefore must take necessary action and focus on its profitability condition and try to come out of such worst position.

Conversely, **The Kajarria Co.** has given its profit more than 3 times in 2014 as compared to 2010 shows a very significant and targeted position that has achieved by the company. This shows good position of profit in the related segment.

#### T- test:

Group	Asian	Kajarria
Mean	92.89	220.09
Standard Deviation	11.93	89.19
N	5	5
df	8	
T- value	3.1610	

From above t-test, t calculated value is higher than table value. So, there is significance difference between Asian and Kajarria in profit after taxes.

#### Suggestions:

1. The Asian Co. has to increase its production capacity in order to increase its overall sales as it not double (i.e. 200%) even after 5 years hence it should make more sales promotion scheme or programs and sales expenses.



2. The Excise duty of the Asian Co. has been continuously increasing year by year but with lower growth rate in compared to raw material consumption. Whereas in case of Kajaria Co. the excise duty has been continuously increasing comparatively at higher in comparison of Asian Co. So Kajaria Co. should try to decrease its excise duty as it has lower raw material consumption.
3. The Asian Co. has to increase its Operating Profit by decreasing its processing expenses, and other financial expenses.
4. The Asian Co. shall decrease its liability specifically towards Income Tax Provision in order to increase its Profit After Tax (P.A.T.) besides sincere efforts as it has been constantly decreasing after 2011. Where as in case of Kajaria it is continuously increasing from 2010 to 2014 and reached to 300% in 2014 after 5 years.

### References:

1. Kishor Ravi M. (2008) Financial Management, Taxmann Publications.
2. Khan M.Y. and Jain P.K. (2004), Financial Management, Tata Mcgraw Hill Publishing Company Limited, New Delhi.
3. Kothari C.R. (2004), Research Methodology, New Age International Limited, New Delhi.
4. Pandey I.M. (10<sup>th</sup> Edition), Finance Management, Delhi School of Delhi.

### Websites:

1. <http://www.aglasiangranito.com>
2. <http://www.kajariaceramics.com>
3. <http://www.moneycontrol.com>
4. <http://www.ceramicassociation.com>
5. <http://www.inlibnet.ac.in>
6. <http://www.iccttas.com>
7. <http://www.indianceramicsociety.org>

\*\*\*\*\*

**BAROT HIMATKUMAR V.**

Research Scholar (Ph.D.)

Hemchandracharya North Gujarat University

Patan