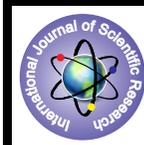


A Comparative Analysis of Liquidity and Leverage position of selected Cement Units



Commerce

KEYWORDS : Liquidity, Leverage, Cement units

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ABSTRACT

The Cement Industry is one of the largest industries of the world and occupies predominant place as one of the basic industries for development and its employment generation capacity. Here the researcher would like to evaluate the liquidity and Leverage position of Jaypee Cement Co Ltd and Sanghi Cement Ltd , for this the related ratios like Current Ratio and Quick Ratio are calculated and studied to know the ability to meet its current obligation of both units and for Solvency position say Leverage ratios like Debt-Equity Ratio and Debt- Service Ratio are calculated to know the portion of debt funds with equity fund in the capital structure of both units with the capacity of service of their debt funds

Introduction.

India entered in the cement era in 1914, when IndiaCement-CoLtd. Started manufacturing cement in Gujarat In1948.G.O.I adopted the cement expansion scheme which envisaged new factories to increase the production. After the Earthquake of 2001 in Gujarat, G.O.G offered special packages for Kutch region and now a days Sanghi Cement and Jaypee cement has established their plants here and become a part of a one of the fast growing economic and industrial hub of Gujarat. The Liquidity and Solvency position is an important one for the investors and creditors, too. Here an attempt is made in this area.

Objectives of the study

- To study the Liquidity position of the units under study
- To study the Solvency position of the units under study

Methodology of the study

Source of data

The study is based on the secondary data taken from the annual reports of the units for 2008-09 to2011-12.the information for the study is also collected from journals, news papers and different Web sites as and when required.

Hypothesis of the study

- The liquidity position of both units is same under study
- The leverage position of both units is same under study

Techniques of the study

For the purpose of analysis of data various ratios related to Liquidity and Leverage are calculated in times relevance. Moreover the simple statistical measures like Mean (Average), Variance, Standard Deviation (S.D) and Co-efficient of Variation (C.V) are applied to analysis the consistency and F-test is applied for hypothesis.

Analysis of Liquidity position

The following two ratios are used to analysis this position.

1. Current Ratio
=Current Assets/Current Liabilities
2. Quick Ratio
=Quick Assets/ Current Liabilities

Table-1 Liquidity Ratio (Times)

Year	Current Ratio (times)		Quick Ratio (times)	
	Jaypee	Sanghi	Jaypee	Sanghi
2009	1.13	1.49	1.24	1.42
2010	1.32	1.32	1.47	0.99
2011	1.26	1.74	1.40	1.52
2012	1.18	1.17	1.17	0.61
Total	4.89	5.72	5.28	4.54
Mean	1.22	1.43	1.32	1.14
V	0.0071	0.0598	0.0192	0.1754
S.D	0.084	0.244	0.138	0.418
C.V	6.88	17.06	10.45	36.66

Current Ratio Analysis

The above table shows that these ratios are significantly low in both units as compared to standard norms2:1.The average ratio of sanghi is 1.43 and of jaypee is 1.22 it means the liquidity position of sanghi is sounder than of jaypee.but in terms of consistency of liquidity poison jaypee is better having lower S.D and C.V.

$F_{cal} = V_{of S} / V_{of J} = 8.42$, $< F_{tab}$ at 5%=9.28 it indicates that there is no significant difference in current ratio of the unit under study period.

Quick Ratio Analysis

The above table shows that quick ratios of Sanghi in 2009-10and 2011-12 is lower than standard norm 1:1.it means this unit has the problem of liquidity in that period. During the study period Average ratio of Jaypee is higher than of sanghi and it has consistency in it, too. $F_{cal} = V_{of S} / V_{of J} = 9.13$ $< F_{tab}$ At 5%=9.28 it indicates that there is no significant difference in quick ratio of the unit study period.

Leverage ratio Analysis

The Leverage ratio explains the extant to which debt is employed in capital structure of the units. The business unit employed debt along with equity to maximize the profit after tax which is due to low cost after of debt after tax. This debt fund has fix and regular charges every year irrespective of profit earned or not. The debt funds must be used carefully considering the liquidity and risk factor. For these following two ratios are used.

1. Debt-Equity Ratio=Debts/Equity
It shows the extent of equity covering the debt.
2. Debt Service Ratio=EBIT/Interest
This ratio measures the ability of the units to service the debts.
 - It means the ability to pay fix charges say interest.

Table-2 Leverage Ratio (Times)

Year	Debt Equity Ratio(times)		Debt service Ratio(times)	
	Jaypee	sanghi	Jaypee	Sanghi
2009	2.10	1.63	3.67	1.83
2010	2.17	1.38	2.12	1.28
2011	2.34	1.47	1.98	0.52
2012	1.31	1.07	1.73	3.94
Total	7.92	5.55	9.5	7.57
Mean	1.98	1.38	2.38	1.9
V	0.20	0.05	0.77	2.18
S.D	0.44	0.22	0.87	1.47
C.V	22.22	14.50	36.55	77.36

Debt Equity ratio analysis

Here standard ratio is 2:1 .the average debt equity ratio in jay-pee is 1.98 higher than of Sanghi .it indicates that Jaypee is more dependent on debts. While in Sanghi it is marginally low and consistence

$$F_{cal} = V_{of J} / V_{of S} = 4 < F_{tab} \text{ at } 5\% = 9.28$$

It indicates that there is no significant difference in this ratio of units under study

Debt service ratio analysis

The average debt service ratio is higher in Jaypee than of Sanghi. While it is the lowest at 0.52 and the highest at 3.94 in sanghi

having more value of S.D and C.V

$$F_{cal} = V_{of S} / V_{of J} = 2.83 < F_{tab} \text{ At } 5\% = 9.28$$

It indicates that there is no significant difference in this ratio of units under study

Conclusion-

from the study it can be concluded that the Liquidity position of both units is not good and in respect to Leverage Jaypee used more debts and it also served better and consistence to its creditor of the unit.

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