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Liquidity and Solvency Ratio Analysis of JK Cement Group

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Abstract – ***Cement is an essential component required for the development of the infrastructure and various housing programmes which are necessary for the socio-economic growth and development of the country. The Indian cement industry is the second largest producer of cement in the world but ahead of the united statesand Japan. For over 3 decades, JK cement's business prioritieshave been closely aligned with national aspirations and objectives. During this period India's economic growth and Govt. reforms have lifted millions of people from poverty and ignorance by giving them an opportunity to live life with dignity. JK cement long term vision is also the same and it has succeeded in achieving its objectives.***

HISTORY – The story of JK Lakshmi Cement Limited began in the year-1982 from. The place- a remote area in the zero industry district of Sirohi in Rajasthan.. And as it has completed more than 29 years of its glorious existence, the company is renowned for its strength, quality and performance. One of the established names in the cement industry, JK Lakshmi Cement Ltdhas state-of-the-art plant at Jaykaypuram, dist. Sirohi, Rajasthan. With the capacity expansion and further commissioning of split location grinding units at Motibhoyan, Kalol (Gujarat) & Bajitpur, Jhajjar (Haryana) the combined capacity of the Company today stands at 5.30 Mn. MT per annum. With the use of the latest technology from M/s Blue Circle Industries and modern equipments from M/s Fuller International of USA, the Company is going from strength to strength. It is also the first cement producer of Northern India to be awarded an ISO 9002 certificate and be accredited by NABL (Department of Science &Technology, Government of India) for its Lab Quality Management systems. Keeping in touch with the global construction trends & changing needs of customers, the company has introduced state-of-the-art Ready Mix Concrete (RMC) with the brand name" JK Lakshmi Power Mix". C urrently, the company has 10 fully operational plants in Western & Northern regions of the country and is further expanding in this area. 'JK Lakshmiplast' the first premium branded Plaster of Paris (POP) in Northern India is another value added product launched by the C ompany for discerning customers.

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INTRODUCTION

J.K.Cement started its commercial production in May 1975 in its first plant Nimbahera in Rajasthan. The company was incorporated in the year 1994.Today J. K. Cement is one of the largest cement manufacturers in north India. It is also second largest producer of white cementing India. The company exports white cement to countries like South Africa, Nigeria, Singapore, Bahrain, Bangladesh, Sri Lanka, Tanzania, UAE and Nepal. The company has two manufacturing facilities located at Nimbahera and Mangrol in the state of Rajasthan. The company produces white cement and its production unit is located in Gotan at Rajasthan. During August 2009, Allahabad HC had sanctioned the scheme of amalgamation of Jaykaycem a wholly owned subsidiary with the company. Jaykaycem was implementing 3 million tones per annum Green Field Grey Cement Plant at Mudhol, District Bagalkot, Karnataka state which was at final stage of implementation. The installed capacity of grey cement of JK Cement with the merger increased to 7.5 million tones per annum. These plants have received various certifications ISO-9001:2000 for quality management system, ISO-14001:2004 for environment management systems and OHSAS-18001:2005 for occupational health and safety systems.

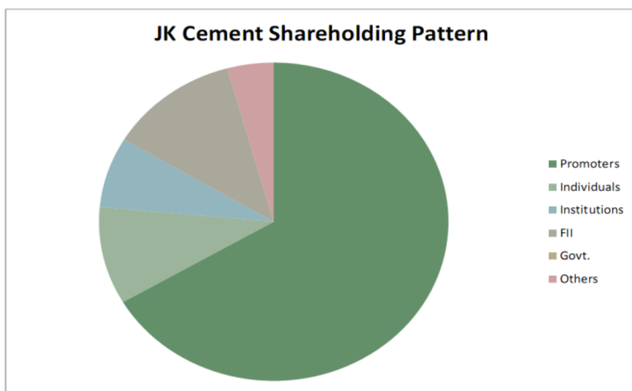
PRODUCT

J K Cement produces ordinary Portland cement of 53-grade, 43-grade and 33-grade. It markets these cements under the brand name J K cement and Sarvashakitman. It also manufactures Portland Pozzolana Cement and markets it under the name J K Super. It markets white cement under the name J K White and Camel. J.K. Cement has introduced water repellent material in powder form. It has also introduced white cement based putty for plastering walls and ceiling and sells the same under the name JK Wall Puty.

Share Holding Pattern (% of Shares Held JK Cement's Shareholding Pattern)

Description	Percent of Share (%)
Promoters	66.57
Individuals	9.89
Institutions	7.17
FII	12.07
Govt.	0.00
Others	4.30

PICTORIAL REPRESENTATION



The above figure depict the % of the shares held.66.57% of the shares of JK Cement is held by the promoters,9.89% of the shares are held by the individuals,7.17% of the shares are held by the institutions,12.07% of the shares are held by the FII,Govt. hold 0.00% of the shares, 4.30 .

LIQUIDITY AND SOLVENCY RATIO ANALYSIS OF JK CEMENT INDUSTRY

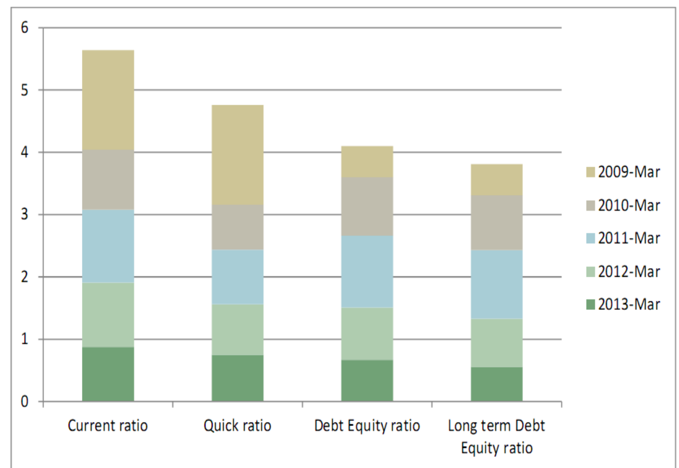
LIQUIDITY AND SOLVENCY

The ability of a company to meet its long-term financial obligations. Solvency is essential to staying in business, but a company also needs liquidity to thrive. Liquidity is a company's ability to meet its short-term obligations. A company that is insolvent must enter bankruptcy; a company that lacks liquidity can also be forced to enter bankruptcy even if it is solvent.

Source: last 5 years Financial Summary

	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09
Liquidity And Solvency Ratios					
Current Ratio	0.88	1.03	1.17	0.96	1.69
Quick Ratio	0.75	0.81	0.88	0.72	1.64
Debt Equity Ratio	0.67	0.84	1.15	0.94	0.58
Long Term Debt Equity Ratio	0.56	0.77	1.10	0.88	0.54

GRAPHICAL REPRESENTATION



Liquidity Ratios:” Liquidity” refers to the ability of the firm to meet its current liabilities .The liquidity ratios therefore are also called Short term solvency ratios.these ratios are used to assess the short term financial position of the concern.They indicate the firm’s ability to met its current obligations out of current resources .

I) **CURRENT RATIO** : This ratio explain the relationship between current assets and current liabilities of a business. The formula for calculating the ratio is Current Assets /Current Liabilities.

Current Assets = Cash in hand +cash at bank +B/R+Short term investment (marketable securities)+Debtors(Debtors-Provision)+Stock(Stock of finished goods+Stock of raw materials +Work in progess)+Prepaid expenses.

Current Liabilities=Bank overdraft+B/P + Creditors +Provision for taxation +Proposed Dividends + Unclaimed Dividends + o/s Expenses + Loans payable within a year.

Significance: This ratio is used to assess the firm’s ability to meet its short term liabilities on time.

Ideal Current ratio = 2:1

Current ratio >2:1 indicates the poor investment policies of the management.

Current ratio <2:1 indicates lack of liquidity and shortage of working capital.

Current ratio of JK cement company in 2009is 1.69 which is less than the ideal ratio i.e 2:1.In the next year in 2010 it declines to 0.96 but in 2011 it increased to 1.17 ,for the next two consecutive years i.e 2012&13it shows a decreasing trend i.e 1.03&0.88 Respectively. 2009 has the highest current ratio i.e 1.6 from the years 2009 to 2013.

2)**QUICK RATIO**:Quick ratio indicates whether the firm is in a position to pay its current liabilities within a month or immediately. The quick ratio is calculated by dividing liquid assets by current liabilities.

Quick Ratio =Liquid Assets/Current Liabilities.

'Liquid Assets' means those assets which will yield cash very shortly.An ideal Quick Ratio is said to be 1:1.If it is more it is considered to be better .The idea is that for every rupee of current liabilities,there should be atleast one rupee of Liquid assets. Stock is not included in liquid assets as it may take a lot of time before it is converted into cash.Quick ratio is thus more rigorous test of liquidity then the current ratio.But when used with current ratio , it gives a better picture of the short –term financial position of the firm .Quick ratio of JK Cement Company in 2009 is 1.64 which is more than the ideal ratio i.e 1:1.In the next year in 2010 it declines to 0.72 but it improves to 0.88 in the year 2011 followed by a slight decline to 0.81 in the year 2012 and further declines to 0.75 in the year 2013.Soin comparison of all the years from 2009 to 2013 ,the company is in a better position to pay its current liabilities immediately in the year 2009.

3)**DEBT-EQUITY RATIO**:- This ratio expresses the relationship between long term debts and shareholder's fund .It indicates the proportion of funds which are acquired by long term borrowings in comparison to shareholders funds.

Debt-Equity Ratio=Debt/equity or Long term loans/shareholders Funds or Net worth.

Long term Loans:- These refers to long term liabilities which matures after one year. These includes debentures, mortgage loans,bank loans,loans from financial institutions and public deposits etc.

SHAREHOLDER'S FUND:-

These includes Equity share capital, Preference share capital, Share premium, General reserves, Capital reserve,, other reserves and credit balance of P&L A/c. However, accumulated losses and fictitious assets remaining to be written off like preliminary expenses, Underwriting commission, Share issue expenses etc. should be deducted.

Significance:-This ratio is calculated to assess the ability of the firm to meet its long term liabilities. Generally Debt-Equity ratio of 2:1 is considered as safe. If the Debt –Equity ratio is more than that, it shows a rather risky financial position from the long term point of view, as it indicates that more and more funds invested in the business are provided by long term lenders. A high Debt-equity ratio is a danger signal for long term lenders. The lower this ratio<the better it is for long term lenders because they are more secure in that case. Lowethan 2:1 Debt-Equity ratio provides sufficient protection to long term lenders. Debt Equity Ratio of JK Cement Company is 0.5 in 2009. It increased a little to 0.94 in 2010 and further to 1.15 in 2011. In 2012 it declines to 0.84 and further declines to 0.67 in 2013. This information shows that the lenders to this company are in a much secured position in the year 2009.

4)**LONG TERM DEBT-EQUITY RATIO**: –Long-term debt-to-equity ratio indicates to investors and the rest of the world the funding strategies a company uses to outperform the competition and lure customers away from rivals. In essence, this metric provides insight into the firm's mix of equity and debt, and how this combination affects corporate productivity. Long-term debt-to-equity ratio equals total long-term debts divided by total equity.

Long Term Debt-Equity Ratio= Long term Debt /Total Equity.- A low debt-to-equity figure tells corporate financiers that senior leadership is too timid in risk-taking and may be missing opportunities in the marketplace. Conversely, a high ratio could mean the firm is taking on too much debt relative to its equity capital.

SIGNIFICANCE:-

Long-term debt-to-equity ratio is an important indicator that financial-market players rely on to gauge corporate solvency. Reviewing this performance indicator satisfies department heads' desire to learn about trends on financial markets, with an emphasis on whether the company can borrow money at affordable rates. . Long term Debt-equity ratio of JK Cement company is 0.54 in 2009, 0.88 in 2010, 1.10 in 2011 this worsens the situation then it improves a little when in 2012 it is 0.77 and in 2013 it is 0.56. This ratio analysis shows that the company is quite strong financially in the year 2009.

CONCLUSION:-

Considering the growing demand for cement in india and higher capacity utilization over the years. Key Indian players have already begun to revisit their business strategies. Further, as cement is a commodity and the process is well known,there is no USP as far this product is concerned. The company continue to deploy its cash surplus in a judicious and tax efficient manner to increase overall return on surplus funds. It continues to make a tradeoff between risk and reward while deploying its surplus funds. The company has also been ableto reduce its cash tom cash cycle through efficient working Capital Management. The Liquidity and Solvency ratio analysis shows that the Company is in a better position in the year 2009 in comparison of the years from 2009 to 2013.

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