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A STUDY ON FINANCIAL STATEMENT ANALYSIS OF CEAT LIMITED

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Abstract:

Technology generation in the Indian tyre industry has witnessed a fair amount of expertise and versatility to absorb, adapt and modify international technology to suit Indian conditions. This is reflected in the swift technology progression from cotton (reinforcement) carcass to high-performance radial tyres in a span of four decades. Globalization has led to the linking of the economies of all the nations and therefore major Indian players in the tyre industry are pursuing global strategies to enhance their competitiveness in world markets. The present study is done at Ceat limited. The aim of the study to aware about the managerial function in the industry. The theoretical and Practical knowledge are different. By this study we will get an idea about the daily transactions occurred in a firm. This study also gives an idea about the functioning of financial department.

Key Words: Financial Department, Financial Statements, Managerial Functions & Transactions

Introduction:

Indian tyre industry has been reporting good growth figures over the past few years, spurred by the growing passenger vehicle and two-wheeler market. It has emerged as one of the most competitive markets in the world and with the emergence of new technology, ultra-modern production facilities and availability of raw materials, the sector is poised to grow further. Major technological changes have taken place in tyre design from conventional bias or diagonal ply from the past to the current steel radial tyres, tubeless tyres, with low aspect ratio tyres, puncture resistant tyres etc. Testing standards have also evolved accordingly to ensure high performance, mileage, safety, reliability and longevity of the tyres. The Indian tyre industry has been quick in adopting the latest technology trends through foreign collaborations and tailoring these to Indian needs. The manufacturers are also investing in the development of 'green tyres and in capacity expansion for radial tyres. Finance is the one of the important department in every organization's good financial position is necessary for smooth running of every business it is for appropriate raise of funds and utilization of funds effectively. The analysis of financial statement is meant to get data, classify data, store data for future purpose and present the data such a way that it becomes useful for management at the time of decision making. The techniques of financial analysis include comparative financial statement, ratios, trend analysis and so on. In this study we are going to analyze Ceat ltd. financial statements.

Objectives of the Study:

The main objectives of the study are mentioned below:

- ✓ To evaluation of financial position of Ceat ltd.
- ✓ To evaluate liquidity position of Ceat ltd.
- ✓ To determine resource utilization of Ceat ltd.
- ✓ To determine the long-term solvency of Ceat ltd.
- ✓ To offer suitable suggestions on the basis of findings of the study.

Scope of the Study:

The present study is designed to cover the analysis of financial position of Ceat ltd. It covers liquidity ratios, activity ratio, leverage ratios and profitability ratios. And it includes a trend analysis and comparative balance sheet.

Research Design and Methodology:

It is analytical research, is conducted to evaluate financial performance of the Ceat Ltd. This report is based on the secondary data. For analyses the financial performance of the company five years (from 2014 to 2018) financial data are considered. The following tools were used the analysis: Ratio Analysis, Trend analysis, Average Annual Growth rate (AAGR) and Comparative financial statements.

Company Profile:

Ceat Ltd, a part of the RPG conglomerate is one of the leading tyre manufacturers in India. The company offers the widest range of tyres to leading Original Equipment Manufacturers across the world. They manufacture a range of tyres catering various segments, which includes tires for heavy duty trucks and buses (T&B), light commercial vehicles (LCVs), earthmovers and forklifts (specialty segment), tractors, trailers, passenger cars (PC), motorcycles, scooters and auto-rickshaws. They produce over 7 million tyres a year and commands around 13% share of the Indian tyre market.

The company operates two plants in Maharashtra, one in Bhandup and the other in Nasik. They have a robust national network consisting of 34 regional offices and over 3,500 dealers among which approximately 100 are exclusive dealers running the CEAT Shoppe outlets for passenger cars segments and 96 exclusive dealers running the CEAT HUBs for Truck & Bus Segments. The company has their presence in 110 countries.

Ceat Ltd. was incorporated in the year 1958 as Ceat Tyres of India Ltd in collaboration with Tata Group. The company was established with the main object to construct, produce, prepare, manufacture, press, vulcanize, repair, retread, purchase, sell, import and to deal in tyres, semi-tyres for all types of vehicles and inner tubes, flaps and repairs material in general. Over the last 50 years, the company has established a strong presence in both the domestic and the international markets.

Analysis and Interpretation:

Current Ratio:

Table 1: Statement Showing Current Ratio (Rs. in Crore)

Year	Current Assets	Current Liabilities	Current Ratio
March 2014	1675.98	1461.08	1.15
March 2015	1511.38	1481.52	1.02
March 2016	1388.12	1412.81	0.98
March 2017	1593.20	1562.42	1.02
March 2018	1618.09	1884.80	0.86
AAGR	**-0.69**	**5.80**	**-5.04**

It is defined as the ratio of current assets to current liabilities. It is an index of technical solvency and an index of the strength of the working capital. A high current ratio is an assurance that a firm will have adequate funds to pay current liabilities and other current payments. The ideal ratio is 2:1 times.

Inference: In the last five years, the current ratio of Ceat Ltd is less than standard ratio. It shows that the company has poor liquidity position.

Liquid Ratio or Quick Ratio:

Table 2: Statement Showing Liquid Ratio (Rs. in Crore)

Year	Liquid Assets	Current Liabilities	Liquid Ratio
March 2014	922.4	1461.08	0.63
March 2015	831.23	1481.52	0.56
March 2016	726.06	1412.81	0.51
March 2017	649.72	1562.42	0.41
March 2018	833.48	1884.80	0.44
AAGR	**-1.93**	**5.80**	**-6.03**

It shows the relationship between liquid assets and current liabilities. It is the firm's capacity to pay its obligation at time of emergency situation. The ideal ratio is 1:1 times.

Inference: Last year's quick ratio shows that Ceat Ltd is in low liquid position. In all the five years the quick ratio was below the standard ratio.

Absolute Liquid Ratio:

Table 3: Statement Showing Absolute Liquid Ratio (Rs. in Crore)

Year	Absolute Liquid Assets	Current Liabilities	Absolute Liquid Ratio
March 2014	167.87	1461.08	0.11
March 2015	126.28	1481.52	0.09
March 2016	107.26	1412.81	0.08
March 2017	35.92	1562.42	0.02
March 2018	86.25	1884.80	0.05
AAGR	**-9.72**	**5.80**	**-10.91**

Absolute liquid ratio is expressed as absolute liquid assets: current liabilities. Generally, a cash ratio of 0.5:1 is an average that means it is the satisfactory level. If the actual absolute liquid ratio is equal to or more than the standard ratio of 0.5:1, the firm can be taken as liquid. On the other side of coin if the actual absolute liquid ratio is too low, the firm is not considered as liquid.

Inference: The absolute liquid ratios of the company are not liquid. When compare to standard ratio 0.5:1, the absolute liquidity ratio of the company is not satisfactory.

Fixed Asset Turnover Ratio:

Table 4: Statement of Fixed Asset Turnover Ratio (Rs. in Crore)

Year	Net Sales	Fixed Asset	Ratio

March 2014	5553.98	1556.05	3.57
March 2015	5802.38	1571.79	3.69
March 2016	6145.92	2109.84	2.91
March 2017	6441.30	2452.53	2.63
March 2018	6399.68	2723.79	2.35
AAGR	**3.05**	**15.01**	**-6.83**

The standard or ideal fixed assets turnover is 5 times. So, a fixed assets turnover ratio of 5 times or more indicates better utilization of fixed assets. On the other side, a fixed assets turnover ratio of less than 5 times, it shows that the fixed assets are not utilized effectively. In this context, it may be noted that a fixed assets turnover ratio means under trading, which is good for the business.

Proprietary Ratio:

Table 5: Statement of Proprietary Ratio (Rs. in Crore)

Year	Proprietary Fund	Total Asset	Ratio
March 2014	1019.60	2076.06	0.49
March 2015	1673.24	2331.91	0.72
March 2016	2055.52	2716.32	0.76
March 2017	2414.95	3354.52	0.72
March 2018	2606.09	3276.19	0.80
AAGR	**31.12**	**11.56**	**12.65**

This ratio shows the general financial ability of the company. It helps to the creditors of the company to ascertain the shareholders fund in the total assets of the business. A high ratio denotes safety to the creditors on other side, a low ratio shows greater risk factor to the creditors. A ratio below 0.5 is a red signal for the creditors since they have to lose heavily in the event of company’s liquidation as it indicates more of creditors fund and less shareholders fund in the total assets of the company.

Findings:

- ✓ The liquidity analysis reveals that the current ratio and quick ratio of the company are below the standard ratio on the study period. Current ratio during the year 2018 and 2014 was 0.86 and 1.15 respectively and also has negative average annual growth rate of -5.04%. Quick ratio during the year 2017 and 2014 was 0.41 and 0.63 respectively and also has negative average annual growth rate of -6.03%. The absolute liquid ratio is not so good.
- ✓ The Fixed assets turnover ratio determines efficiency of utilization of fixed assets and profitability of a business concern. This ratio during the year 2015 is 3.69 and also has negative average annual growth rate of -6.83%. The fixed assets turnover ratio is gradually decreasing every year; this indicates that the firm is not utilizing its fixed assets efficiently.
- ✓ Proprietary ratio of the concern during the year 2014 and 2018, are 0.49 and 0.80 respectively and also has positive average annual growth rate of 12.65%. Ceat ltd. is maintaining the standards.

Suggestions:

- ✓ The current ratio and quick ratio are not satisfactory in all the five years. They must be developed for their success.
- ✓ The absolute liquid ratio is less than the ideal ratio; it would affect the short term financial solvency of the organization. Hence, it is suggested that they have to decrease the current liabilities.
- ✓ The management has to control the long- term debt and increase the shareholders fund.
- ✓ The net profit position is fluctuating every year in Ceat ltd. So it must be developed to achieve the next level.

Conclusion:

From the analysis of Ceat ltd., it is comparatively good in financial position. The growth in the Transport Industry together with developments of infrastructure in road highways offers ample scope for tyre industry. The industry mainly depends on Rubber, which is subject to vagaries of nature for yield. Company's quality policy helps in providing quality products consistently and hence acceptability in the market. The operative results indicate a positive and fluctuating growth oriented trend. The firm earns profit on every year. Net profit shows the better in the operational efficiency of the business concern.

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