

# [Ratio analysis prism cement essay sample](https://assignbuster.com/ratio-analysis-prism-cement-essay-sample/)

Liquidity ratios

• Liquidity ratios are used to determine a company’s ability to meet its short‐term debt obligations. • liquidity ratios are a good measure of whether a company will be able to comfortably continue as a going concern. • Any type of ratio analysis should be looked at within the correct context. For instance, investors should always look at a company’s ratios against those of its competitors, its sector and its industry and over a period of several years.

• There are 3 types of Liquidity ratios‐
– Current ratio – Quick ratio – Cash ratio

• Net Working Capital

Current ratio
• Current ratio measure a company’s ability to pay off its short‐term debt (CL) using assets that can be easily liquidated (CA). • Current ratio= Current Assets ÷ Current Liabilities • Current ratio= 1678. 08 ÷ 1869. 76 = 0. 897

Norms & Limits
• The higher the ratio, the more liquid the company is. • Commonly acceptable current ratio is 2; it’s a comfortable financial position for most enterprises. • Low values for the current ratio (values less than 1) indicate that a firm may have difficulty meeting current obligations. • If the current ratio is too high (much more than 2), then the company may not be using its current assets or its short‐term financing facilities efficiently. This may also indicate problems in working capital management.

Quick ratio
• It is a measure of a company’s ability to meet its short‐term obligations using its most liquid assets (near cash or quick assets). • Quick ratio = (Current Assets ‐ Inventories) ÷ Current Liabilities • Quick ratio = (Cash and cash equivalents + Marketable securities + Accounts receivable) ÷ Current Liabilities • Quick ratio = (1678. 08 ‐ 586. 95) ÷ 1869. 76 = 0. 584

Norms & Limits
• The higher the quick ratio, the better the position of the company. • The commonly acceptable current ratio is 1, but may vary from industry to industry. • A company with a quick ratio of less than 1 can not currently pay back its current liabilities; it’s the bad sign for investors and partners.

Cash ratio
• Cash ratio is a refinement of quick ratio and indicates the extent to which readily available funds can pay off current liabilities. • Cash ratio = Cash and cash equivalents ÷ Current Liabilities • Cash ratio = 98. 9 ÷ 1869. 76 = 0. 053

Norms & Limits
• There is no common norm for cash ratio. • Generally, a cash ratio of not less than 0. 2 is considered as acceptable. • A ratio that is too high may show poor asset utilization for a company holding large amounts of cash on its balance sheet.

Net Working Capital

• Net working capital is the amount by which the value of a company’s current assets exceeds its current liabilities. • Net working capital = Current Assets ‐ Current Liabilities •
Net working capital = 1678. 08 ‐ 1869. 76 = (191. 68) Cr

Norms & Limits

• The number can be positive (acceptable values) or negative (unsafe values), depending on how much debt the company is carrying. • Positive working capital generally indicates that a company is able to pay off its short‐term liabilities almost immediately. • Companies with negative working capital may lack the funds necessary for growth.

Interpretation & Trends

• For an investor’s point of view making an educated investment based on the ratios in important. • As we stated, firms with higher liquidity ratios are better able to meet their short‐term obligations. • Fundamental ratio analysis‐ – Time series analysis – Competitive analysis – Industry & sector analysis