Ratio analysis prism cement essay sample

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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