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Study of Capital, Liquidity of Public Sector Fertilizer Industry in India

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ABSTRACT

Indian fertilizers market is expected to witness strong growth during the last decade, owing to continuous growth of population which is resulting in more demand for food, coupled with increasing demand for agricultural products in the country. India is one of the chief producers of agricultural products such as pulses, wheat, rice, groundnut, potatoes, onion etc., thereby leading to high demand for fertilizers in the country. Here an attempt has been made to analyse the financial results based on the financial statements for a period of five years from 2017-2018 to 2020-2021of selected Fertilizer company (Rashtriya Chemicals & fertilizers Ltd.). Some of the important ratios have been selected for measuring the financial performance i.e. Current Ratio, Quick Ratio, Earning per Share, Dividend per share,Return on capital employed, Return on Assets ,Debt equity ratio and Cash Flow analysis. The result shows that there is still a necessity of effective working capital policy to run the business of the company under study.

Keywords: Current Ratio, Cash flow Analysis, Ratio Analysis, Financial Analysis, Fertilizer Industry

INTRODUCTION

The Indian fertilizer market was value INR 10,437 billion in 2021. Looking forward, the market is projected to reach INR 15,116 billion by 2024, growing at a CAGR of 12.3% during 2019-2024. Fertilizers have played a key role in the success of India's green revolution and subsequent self-reliance in food grain production. The increase in fertilizer consumption has contributed significantly to sustainable production of food grains in the country. As a result, the demand of fertilizers has witnessed double digit growth rates over the past several years. The financial result of the firm is one of the most important indicators of its performance. The financial performance of the any firm is basically measured by the financial statement analysis. The financial statements are constructed to present useful overall summaries of the financial data accumulated by a concern. They are very useful to communicate financial information to interested parties. They reveal the periodical review on the progress by the management. Therefore, to judge real scenario of a particular concern for a particular period, the analysis and interpretation of financial statements of that concern are necessary. It highlights the significant facts and relationship regarding the managerial performance, corporate efficiency, financial strength and weakness and credit worthiness of a business enterprise. Financial analysis is a process of evaluating relationship between components of financial statement to obtain better

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understanding of the firm's position and performance. This study highlights on the financial performance of selected fertilizers company of India.

OBJECTIVES OF THE STUDY

The broader objective of this study is to know the financial performance of fertilizer industry with special reference to Rashtriya Chemicals & Fertilizers Ltd(A Central PSU), this objective is sub-divided into:

- To examine the financial position of fertilizer company
- To examine liquidity position of fertilizer company.
- To make suggestions for improvement of financial soundness of selected fertilizer company.

UNIVERSE OF STUDY

For the research purpose, Researcher has selected the Rashtriya Chemicals & Fertilizer Ltd (A Central PSU). This company holding major share of Fertilizer Market.

PERIOD OF RESEARCH STUDY

Present study has been made covering the period of 5 years from April 2017 to March 2021.

SOURCES OF DATA

The study is mainly based on secondary data obtained from the annual published reports of the fertilizer Company. Other publications and reports of different task forces, study groups and committees provide other necessary data required for the study, besides information has also been taken from different publications, various books, periodicals, journals etc.

DATA ANALYSIS TECHNIQUES

The financial health of any company can be diagnosed by analysing profitability, productivity. For making such analysis collected data is duly edited, classified and analysed by using appropriate and relevant accounting techniques. There are various tools or techniques for analysing the financial data are used. In this study only accounting tool used for study of data.

(A) ACCOUNTING TECHNIQUES

For analysing financial performance and measuring financial efficiency of fertilizers Companies, we are hereby to use following accounting tools i.e.

RATIO ANALYSIS

A ratio expresses mathematical relationship between one number to another number. The ratio analysis is the best known and widely used tool of financial analysis. "As operation definition or ratio is the relationship between one item to another in a simple mathematical form." "A, ratio is simply one number expressed interims of anther. It is found by dividing one number the base into the other"

LIMITATIONS OF THE STUDY

This study is based on secondary data taken from published annual reports of fertilizer company and other publications. Its findings depend entirely on the accuracy of such data. This study is

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limited to the selected inputs of fertilizer company and the findings are not applicable to the whole industry. There are many approaches to the measurement of financial performance. There is no unity among the experts. So the researcher has taken the approaches which he felt appropriate. This research based on fertilizer related commercial activity. The researcher for this study has not covered other aspects of fertilizer industry.

RASHTRIYA CHEMICALS & FERTILIZERS LTD

Overview

Rashtriya Chemicals and Fertilizers Limited (RCFL) is a leading fertilizers and chemicals manufacturing company with about 75% of its equity held by the Government of India. Company has been accorded the coveted "Miniratna" status in 1997.It has two operating units, one at Trombay in Mumbai and the other at Thal, Raigad district, about 100 KM from Mumbai. RCF manufactures Urea, Complex Fertilizers, Bio-fertilizers, Micro-nutrients, 100 per cent water soluble fertilizers, soil conditioners and a wide range of Industrial Chemicals. Besides fertilizer products, RCF also produces a large number of industrial chemicals that are important for the manufacture of dyes, solvents, leather, pharmaceuticals and a host of other industrial products. Both the manufacturing units of RCF are accredited with ISO 9001 (Quality Management System), ISO 14001 (Environmental Management System), ISO 45001 (Occupational Health and Safety), ISO 50001: 2011 (Energy Management System) and ISO 27001 (Information Security Management).RCF has been performing well for the last several years and in one of the few PSU's which have been posting profits consistently.

Vision/Mission

"Exponential growth through business excellence with focus on maximising stakeholder value by manufacturing and selling fertilizers and chemicals in a reliable, ethical and socially responsible manner".

"To be a world class corporate in the field of fertilizers and chemicals with dominant position in Indian market, ensuring optimal utilisation of resources, taking due care of environment and maximising value of stake holders".

KEY FINANCIAL RATIOS OF RASHTRIYA CHEMICALS AND FERTILISERS

	MAR 21	MAR 20	MAR 19	MAR 18	MAR 17
PER SHARE RATIOS					
Basic EPS/Share (Rs.)	6.76	3.77	2.52	1.43	3.25
Dividend / Share (Rs.)	2.98	2.84	0.77	0.60	1.10
PROFITABILITY RATIOS					
Return on Capital Employed (%)	13.63	12.10	8.72	4.77	9.40
Return on Assets (%)	4.89	2.02	1.56	1.24	2.74
LEVERAGE RATIO Total Debt/Equity (X)	0.56	1.47	1.09	0.43	0.57
LIQUIDITY RATIOS					
Current Ratio (X)	1.65	1.24	1.34	1.66	1.56
Quick Ratio (X)	1.34	1.08	1.03	1.34	1.28

Source : Dion Global Solutions Limited
https://www.moneycontrol.com/financials/rashtriyachemicalsandfertilisers/consolidated-ratiosVI/RCF01#RCF01

Earnings Per Share

One of the first performance measures to check when analysing a company's financial health is its ability to turn a profit. Earnings per share (EPS) is the industry standard that investors rely on to see how well a company has done.
Basic earnings per share is a rough measurement of the amount of a company's profit that can be allocated to one share of its common stock. Businesses with simple capital structures, where only common stock has been issued, need only release this ratio to reveal their profitability.
Basic EPS = (Net income - preferred dividends) ÷ weighted average of common shares outstanding during the period
EPS ratio measures the amount of net income earned per share of stock outstanding. Obviously higher ratio is expected. Average earning per share ratio of selected sample units was high enough for RCF which shows favourable financial situation. In 2017 EPS is 3.25 and in 2021 it increases to 6.26.It shows high rise in EPS and it is good sign for financial health of a company

Dividend Per Share (DPS)
DPS is an important metric to investors because the amount a firm pays out in dividends directly translates to income for the shareholder. It is the most straightforward figure an investor can use to calculate their dividend payments from owning shares of a stock over time.
DPS=Dividend over the period /outstanding shares during the period
DPS is an important metric to investors because the amount a firm pays out in dividends directly translates to income for the shareholder. It is the most straightforward figure an investor can use to calculate their dividend payments from owning shares of a stock over time. A consistent increase in DPS over time can also give investors' confidence that the company's management believes that its earnings growth can be sustained.
In 2017 DPS is 1.10 per share and in will increase in 2021 it becomes 2.98.It certainly increase investor confidence in the financial position of the company.

Return on Capital Employed (ROCE)
Return on capital employed (ROCE) is a financial ratio that can be used to assess a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use.
The ROCE ratio is one of several profitability ratios financial managers, stakeholders, and potential investors may use when analysing a company for investment.
ROCE can be especially useful when comparing the performance of companies in capital-intensive sectors, such as utilities and telecoms. This is because, unlike other fundamentals such as return on equity (ROE), which only analyses profitability related to a company's shareholders' equity, ROCE considers debt and equity. This can help neutralize financial performance analysis for companies with significant debt.
ROCE=EBIT/Capital Employed
Return on capital employed ratio shows investors how many rupees in profits each rupee of capital employed generates. Average return on capital employed ratio of selected units during study period was 9.40 in 2017 to increase 13.63 in year 2021. It can be concluded that sample units do not generate sufficient return on capital employed.

Return on Assets (ROA)
The term return on assets (ROA) refers to a financial ratio that indicates how profitable a company is in relation to its total assets. Corporate management, analysts, and investors can use

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ROA to determine how efficiently a company uses its assets to generate a profit. The metric is commonly expressed as a percentage by using a company's net income and its average assets. A higher ROA means a company is more efficient and productive at managing its balance sheet to generate profits while a lower ROA indicates there is room for improvement.
ROA is calculated by dividing a company's net income by its total assets.
As a formula, it's expressed as:
Return on Assets= Net income/Total Assets
In RCF return on asset in 2017 is 2.74, after that in year 2018,2019 it will decrease significantly. Since 2020 it will increase and in 2021 it doubles the figure of 2020 and in 2021 it will 4.89%, which clearly shows company is more efficient and productive at managing its balance sheet to generate profits

Debt-to-Equity (D/E) Ratio

The debt-to-equity (D/E) ratio is used to evaluate a company's financial leverage and is calculated by dividing a company's total liabilities by its shareholder equity. The D/E ratio is an important metric used in corporate finance. It is a measure of the degree to which a company is financing its operations through debt versus wholly owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn.

Debt-to-Equity (D/E) Ratio Formula and Calculation
Debt/Equity=Total Liabilities/Total Shareholder equity
Given that the D/E ratio measures a company's debt relative to the value of its net assets, it is most often used to gauge the extent to which a company is taking on debt as a means of leveraging its assets. A high D/E ratio is often associated with high risk; it means that a company has been aggressive in financing its growth with debt.
The debt-to-equity ratio shows the percentage of company financing that comes from creditors and investors. Debt Equity Ratio is expected to be lower than 1 and average debt equity ratio of selected fertilizers companies under study during the study period remained lower than 1 i.e. 0.57,0.43,0.56 in year 2017,2018 and 2021.
However, in two consecutive years in 2019 and 2021 debt equity ratio is more than 1, but in 2021 company reduce it below 1. So, it can be concluded the companies are using shareholder fund more than other creditor finance which is strong financial aspect.

Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.
A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average may indicate a higher risk of distress or default. Similarly, if a company has a very high current ratio compared with its peer group, it indicates that management may not be using its assets efficiently.
The current ratio is called current because, unlike some other liquidity ratios, it incorporates all current assets and current liabilities. The current ratio is sometimes called the working capital ratio.

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The current ratio is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. 1 or higher ratio is suitable. Average current ratio of selected fertilizer companies for the study period was found enough high i.e., 1.56,1.66,1.34,1.24,1.65 which shows that companies have sufficient ability to pay off their short-term liabilities.

Quick Ratio

The quick ratio is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets.
Since it indicates the company's ability to instantly use its near-cash assets (assets that can be converted quickly to cash) to pay down its current liabilities, it is also called the acid test ratio. An "acid test" is a slang term for a quick test designed to produce instant results.
The quick ratio measures the amount of liquid assets available against the amount of current liabilities of a company. Liquid assets are those current assets that can be quickly converted into cash with minimal impact on the price received in the open market, while current liabilities are a company's debts or obligations that are due to be paid to creditors within one year.
The quick ratio or acid test ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. Higher quick ratios are more favourable for companies because it shows there are more quick assets than current liabilities. Average quick ratio of sample units for the study period was found enough high which shows favourable situation for company.

CASH FLOW OF RASHTRIYA CHEMICALS AND FERTILISERS (in Rs. Cr.)	MAR 21	MAR 20	MAR 19	MAR 18	MAR 17	
	12 months					
NET PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS AND TAX	**518.36**	**201.91**	**230.16**	**128.24**	**248.72**	
Net Cash Flow From Operating Activities	5,220.58	-529.67	-1,636.43	1,078.12	1,595.41	
Net Cash Used in Investing Activities	-619.49	-526.75	-310.28	-495.67	-317.40	
Net Cash Used from Financing Activities	-3,131.17	1,054.90	1,945.06	-587.52	-1,269.06	
Foreign Exchange Gains / Losses	0.00	0.00	0.00	0.00	0.00	
Adjustments On Amalgamation Merger Demerger Others	0.00	0.00	0.00	0.00	0.00	
NET INC/DEC IN CASH AND CASH EQUIVALENTS	**1,469.92**	**-1.52**	**-1.65**	**-5.07**	**8.95**	
Cash And Cash Equivalents	1.31	3.59	5.24	10.31	1.36	

Begin of Year						
Cash And Cash Equivalents End Of Year	1,471.23	2.07	3.59	5.24	10.31	

Source : Dion Global Solutions Limited
https://www.moneycontrol.com/financials/rashtriyachemicalsandfertilisers/consolidated-cash-flowVI/RCF01#RCF01

The above table shows the impact of operating, financing and investing activities on cash. The net cash increase and decrease from all the activities of Company under study shows a fluctuation more towards negative in the year 2018,2019,2020. It shows a frequent fluctuation in the activities which is also evident from debtor's turnover ratio. There had been a constant decrease in working capital as there had been a decrease in cash and cash equivalents in the years 2018 to 2020 under study. Although there is an very high increase in working capital in year 2021.It is also important for the business has able to generate sufficient cash for its survival in 2021, which is good sign of growth.

Conclusion & Suggestions

Fertilizer industry plays a key role in the development of the economy. This is more so in the case of developing countries like India where there is a domination of agricultural sector in the economic growth. This fact has been made the organisers and strategy creators to take various actions to improve the fertilizer industry in the economy. Fertilizer industry gained importance since there is a huge volume of demand for fertilizer. India is probably the rank third in the world in the production of fertilizer. At present there are nine public sector fertilizer companies are operative in India. The lack of proper management, incompetent financial supply, insufficient supply of raw material, disorganisation in financial management are some of the major risk to the growth of the public sector fertilizer industry in India. It requires the upgrading in the productive efficiency of the factors of production. It also needs an scrutiny of the financial feasibility of the industry becomes vital to know the strength of public fertilizer industry in the current situation. The present research work devoted towards this end. That is the present study is pertaining to examine the financial efficiency of the public sector fertilizer company Rashtriya Chemicals and Fertilizers Ltd.

On the basis of deliberated conclusions following are the suggestions for the betterment in the financial management of the selected fertilizer companies under study:

- Liquidity and profitability should be traded in such a way that positive relationship between variables found during the study is beneficial. The company should keep its creditors at optimal level.
- Receivables also require attention of the management for their over dues. The credit policies of the company should be checked at regular intervals so as to incorporate the latest trends of the business environment as well as payment track record of the debtors
- Working capital should be contained to optimum level because working capital in excess of the requirement will only decrease the profitability.
- According to the findings to the study it is suggested that particular norms for faster rolling of money via debtors will keep the current ratio in control. Since early payments

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to creditors can save interest cost and earn discount which will have a direct impact on the profits of the company

- It should be maintained that the quick ratio of the company always remained above the standard norm of 1:1 during the study period and it should be improved the quick ratio include using long-term financing rather than cash on hand to acquire inventory or selling unnecessary assets.
- The excess funds blocked in form of cash and bank balances need to be utilized and invested in a profitable manner.
- Company should depend not only on creditors for working capital; though these are inexpensive, yet they affect the goodwill of the company.
- The company should explore other economical sources of working capital finance. Negative cash flow may be arisen due to ineffective management, leakage of funds through fraud or actual loss. Temporary mismatch is covered usually by arranging an overdraft facility. A growing company may have a negative cash flow from operating and investing activities and a positive cash flow from financing activities as it continues to consume money to grow. A mature firm will have a positive cash flow from operating activities and possibly a negative balance in its investing activities
- Under Cash flow analysis the outflows during a period are higher than the cash inflows during the same period. Negative cash flow does not necessarily mean loss, and may be due only to a mismatch of expenditure and income. Although, it holds some importance so far working capital is considered. Working Capital is one of the crucial elements in the overall financing of a business. The management of working capital concerns the management of money, inventories, accounts receivable, accounts payable, sundry debtors and sundry creditors etc.

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