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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

LIMITATIONS

SCOPE FOR FURTHER RESEARCH

REFERENCES

APPENDIX/ANNEXURE

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CONFERENCE PAPERS

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FINANCIAL PERFORMANCE OF REAL ESTATE COMPANIES IN ANDHRA PRADESH

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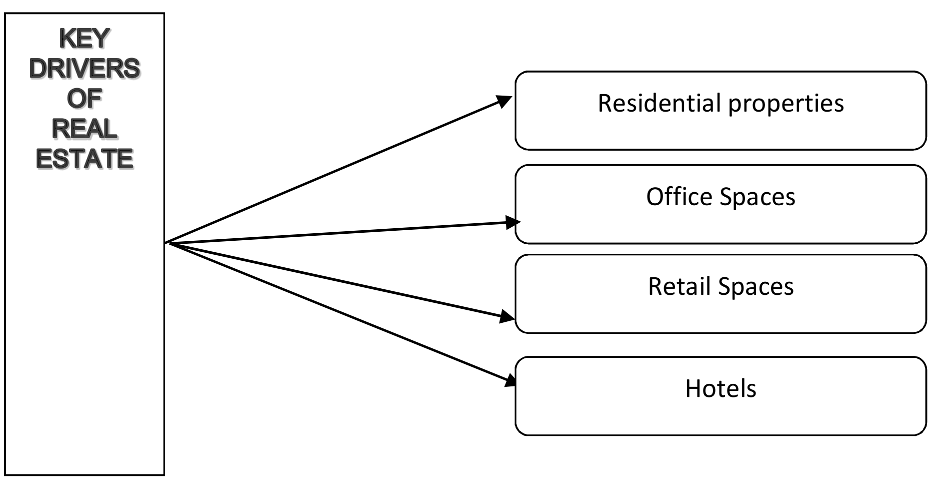
ABSTRACT

Real estate business is one of the core businesses in fast developing states, but it is too challenging business as well. Scarcity of land has resulted in accelerating prices of land with every passing day. As a result of this changed economic environment, real estate business is becoming a very attractive business proposition. Andhra Pradesh is one of the fast growing states in India. The increased importance of Tier 2 cities like Hyderabad, Vijayawada in the overall economic scene of the country has made real estate business even more attractive. The increasing number of industrial units setting their bases in this state has resulted in increased demand for land – both industrial and housing. In this paper the focus is to analyze the performance of real estate business for the period of 2004-05 to 2013-14. The present study has made to analyze the Liquidity, solvency and Profitability performance of real estate companies in Andhra Pradesh.

KEYWORDS
real estate, liquidity, profitability and solvency performance.

INTRODUCTION
Real estate is an imperishable asset, ever increasing in value. It is the only indestructible and most solid security that human ingenuity has ever devised. The term real estate refers to land as well as building. The world 'land' includes the air above and the ground below and any buildings structures on it. The oldest use of the term real estate that has been preserved in historical records was in 1666. This is use of 'real' also reflects the ancient and feudal preference for land, and the ownership there of. Some people have claimed that the word real in this sense descended from the Latin word 'king'. In the feudal system, the king was the owner of all land, and every one to occupied land paid him rent directly or indirectly, in cash or goods or services.

REAL ESTATE DEMAND DRIVERS



OBJECTIVES OF THE STUDY
- To analyze the liquidity position of the select real estate companies.
- To analyze the solvency position of the select real estate companies.
- To analyze the profitability position of the select real estate companies.

METHODOLOGY
An attempt has been made in this study to analyze the financial performance of real estate companies. The financial performance has been analyzed 5 real estate companies Ivrcl,Ncc,RamkyInfra, MadhuconProjects and Manjeera Constructions. Various statistical techniques such as mean, standard deviation, coefficient of variation have been applied to analyze this study. The study covers a period of 10 years,i.e.,2004-05 to 2013-14.

RESULTS AND DISCUSSION

1. LIQUIDITY ANALYSIS

TABLE-1: CURRENT RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	1.30	2.29	1.23	1.29	0.45
2005-06	1.00	1.35	1.22	2.73	0.47
2006-07	1.30	1.02	1.77	1.62	0.49
2007-08	1.17	1.03	1.90	1.25	1.26
2008-09	1.11	1.13	1.79	1.37	1.26
2009-10	1.02	1.02	0.96	1.31	1.48
2010-11	1.01	0.98	1.03	0.71	1.67
2011-12	0.80	0.88	0.90	0.67	1.14
2012-13	0.77	0.85	0.89	0.57	0.89
2013-14	0.59	1.00	0.73	0.60	0.98
Mean	1.00	1.15	1.24	1.21	1.01
S.D	0.21	0.40	0.40	0.62	0.41
C.V	21.75	34.65	32.60	51.23	40.59

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The standard current ratio is 2:1, A high current ratio is an indication that the firm is liquid and has the ability to pay its obligations in time. A high ratio in the above table is 2.73 and 2.29 of Madhucon projects and Ncc in the years of 2005-06 and 2004-05. A low current ratio represents that the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties. A low current ratio was registered in Ivrcl,Ncc,RamkyInfra,Madhucon Projects and Manjeera Constructions in the years of 2011-12 to 2013-14 better to improve the current ratio. A low current ratio may be the following reasons (i) there may not be sufficient funds to pay off liabilities.(ii) the business may be trading beyond its capacity.

CHART - 1: CO-EFFICIENT VARIATION OF CURRENT RATIO OF REAL ESTATE COMPANIES

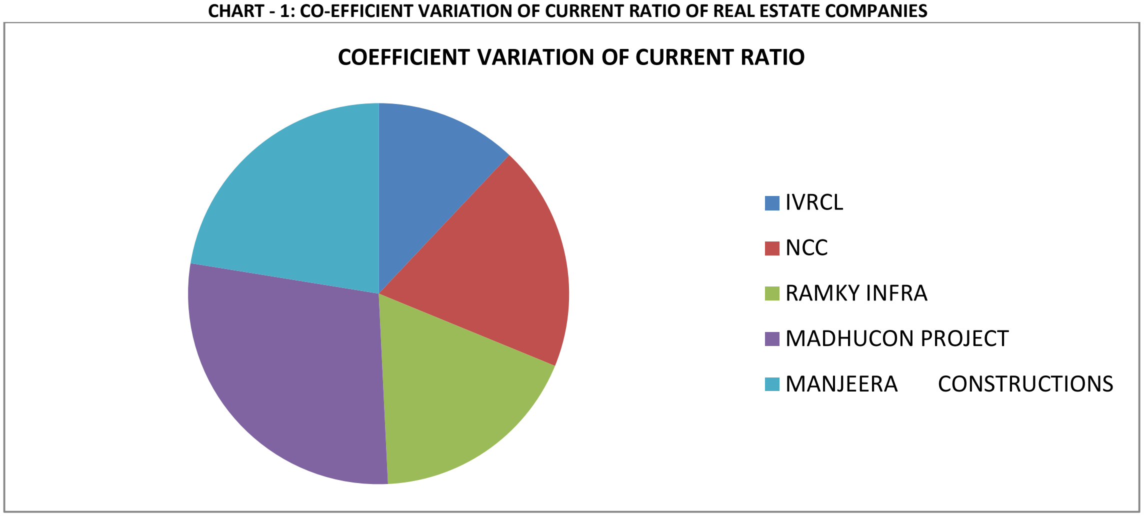


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TABLE - 2: LIQUIDITY (QUICK) RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	2.29	2.65	0.85	1.04	2.45
2005-06	1.80	2.05	0.99	2.51	2.98
2006-07	1.33	1.46	1.59	1.42	0.20
2007-08	1.72	1.57	1.70	1.05	0.32
2008-09	2.13	1.78	1.52	1.27	0.36
2009-10	1.76	2.01	1.11	1.18	0.53
2010-11	2.25	1.34	0.76	1.08	0.69
2011-12	1.95	1.31	0.89	0.91	1.15
2012-13	2.89	1.32	1.02	0.77	1.54
2013-14	2.33	1.36	2.14	0.83	1.39
Mean	2.04	1.68	1.26	1.21	1.16
S.D	0.41	0.41	0.43	0.47	0.88
C.V	20.0	24.76	34.23	39.22	76.48

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The standard norm of quick ratio is 1:1; from the above table it is clear that the high quick ratio was registered form the year 2004-05 to 2013-14. But quick ratio of Ramky infra was registered high in the year 2013-14 i.e.,2.14 and low ratio in the year 2004-05 i.e., 0.85. Madhucon projects was registered high quick ratio in the year 2005-06 i.e., 2.51 and quick ratio was low in the years of 2011-12 to 2013-14. The quick ratio of Manjeera construction was satisfactory in the years 2004-05 and 2005-06 and the quick ratio was registered low in the years 2006-07 to 2010-11.A high quick ratio is an indication that the firm is liquid and has the ability to meet its current liabilities in time and a low quick ratio represents that the firms liquidity position is not good.

2. LONG-TERM SOLVENCY RATIO

TABLE-3: DEBT EQUITY RATIO

DEBT EQUITY RATIO					
YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	0.97	0.49	0.89	0.41	0.76
2005-06	1.43	1.10	1.01	0.25	0.89
2006-07	0.42	0.57	0.62	0.45	1.47
2007-08	0.67	0.74	1.04	0.40	0.85
2008-09	0.77	0.68	1.21	0.60	0.89
2009-10	0.87	1.04	1.11	0.89	0.89
2010-11	1.06	0.85	0.76	1.08	0.65
2011-12	1.09	0.83	0.89	0.87	0.51
2012-13	1.15	0.91	1.02	0.71	0.71
2013-14	2.44	0.60	2.14	0.73	0.41
Mean	1.08	0.78	1.1	0.64	0.79
S.D	0.52	0.19	0.39	0.24	0.28
C.V	48.14	24.52	36.66	37.26	36.14

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

From the above table it is clear that the debt-equity ratio was registered high in Ivrcl (2.44) and Ramkyinfra (2.14) in the year 2013-14. A high debt equity ratio denotes that the claims of outsiders are greater than those of owner's .As a very high debt equity ratio may not be satisfactory to select companies. The select companies may not be able to get credit without paying high rates of interest and without accepting undue pressures and conditions of the creditors. Manjeera construction, Madhucon projects were registered low except the years 2006-07 and 2010-11 whereas, Ncc also had registered low ratio except in the years of 2005-06 and 2009-10.

CHART-2: MEAN OF DEBT EQUITY RATIO

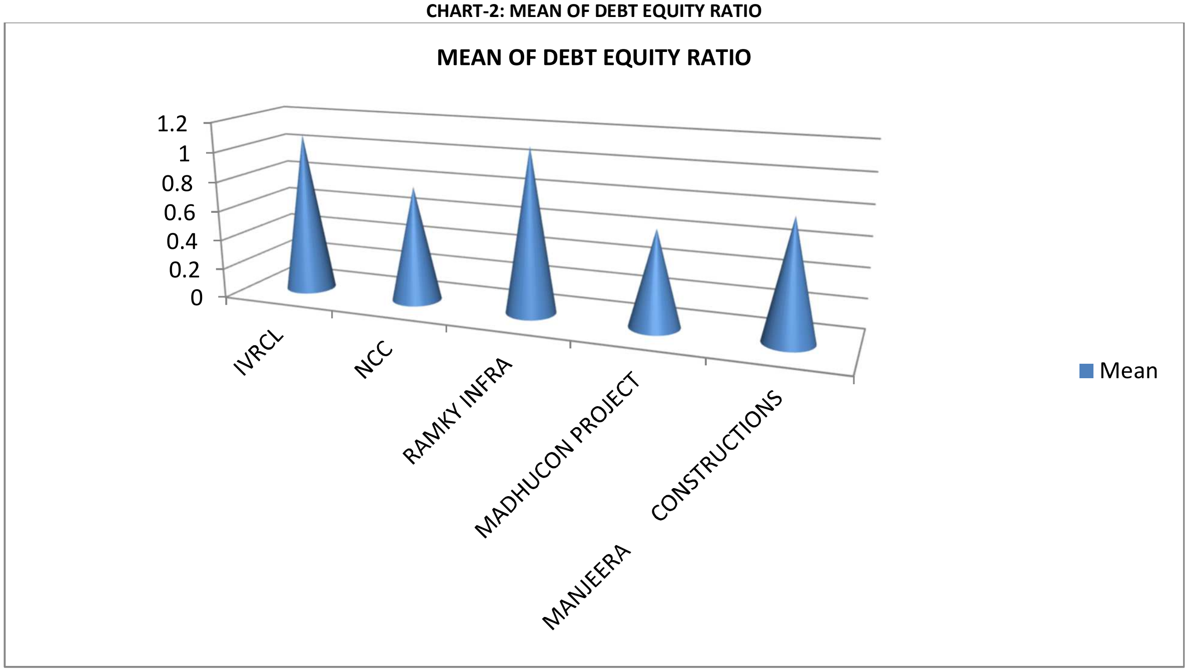

TABLE-4: LONG-TERM DEBT EQUITY RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	0.75	0.36	0.90	0.41	0.84
2005-06	0.23	0.62	1.01	0.25	0.10
2006-07	0.33	0.10	0.62	0.45	0.13
2007-08	0.82	0.15	1.04	0.40	0.83
2008-09	0.71	0.18	1.21	0.60	0.73
2009-10	0.20	0.20	0.21	0.89	0.77
2010-11	0.22	0.13	0.25	0.30	0.57
2011-12	0.17	0.07	0.16	0.28	0.26
2012-13	0.12	0.03	0.18	0.13	0.04
2013-14	0.06	0.08	0.22	0.13	-----
Mean	0.36	0.19	0.58	0.38	0.43
S.D	0.27	0.17	0.40	0.22	0.33
C.V	74.98	87.13	69.15	57.89	76.74

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The above table clearly shows that, the long term debt equity ratio of the Ivrcl,Ncc is gradually decreased from the year from 2004-05 to 2013-14 whereas Manjeera construction was registered low ratio in the year 2012-13 i.e., 0.04.The long term debt equity ratio of RamkyInfra was high in the year 2008-09(1.21) and remaining years was fluctuated. The long term debt equity ratio of Madhucon Projects was registered low ratio from the year 2004-05 to 2013-14. A very long term debt equity low ratio indicates that the select companies had depended upon the owned funds rather than borrowed funds.

3. PROFITABILITY RATIOS

TABLE-5: GROSS PROFIT RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	10.35	10.17	5.95	9.18	21.34
2005-06	8.98	10.26	6.26	12.96	22.12
2006-07	8.34	11.32	9.79	10.34	23.95
2007-08	10.39	9.74	8.61	10.35	24.88
2008-09	9.97	11.51	8.82	8.07	21.75
2009-10	10.94	10.29	10.63	7.06	21.26
2010-11	9.72	6.02	10.73	7.26	25.83
2011-12	6.18	6.61	9.48	7.68	10.08
2012-13	5.54	5.15	7.50	12.08	3.39
2013-14	1.66	6.47	-25.73	16.60	0.13
Mean	8.21	8.75	5.20	9.12	17.47
S.D	2.77	2.28	10.43	5.31	8.88
C.V	33.73	26.06	200.57	58.22	50.82

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The above table shows that the Manjeera construction was registered high gross profit ratio in the year 2010-11i.e., 25.83 whereas RamkyInfra produces negative results (-25.73) in the year 2013-14.I.vrcl and Manjeera constructions were registered low Gross profit ratio in the year 2013-14.Ncc and Madhucon projects produces a low gross profit ratio in the years of 2012-13(1.66) and 2009-10 (0.13) respectively. Remaining years of select companies gross profit ratio was fluctuated. There is no standard norm for gross profit ratio and it may vary from business to business but gross profit should be adequate to cover the operating and to provide fixed charges, dividends and accumulation of reserves. A low gross profit ratio indicates that high cost of goods sold due to unfavorable purchasing policies, lesser sales, lower selling prices, excessive competition, over-investment in plant and machinery.

CHART - 3: STANDARD DEVIATION OF GROSS PROFIT RATIO

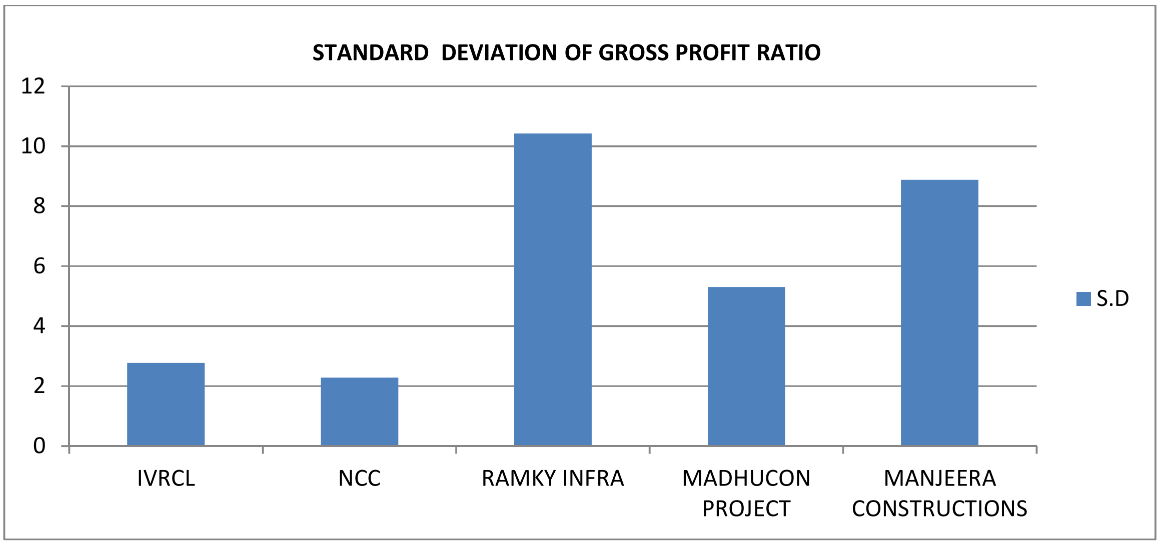

TABLE-6: NET PROFIT RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	5.33	5.62	4.35	5.20	22.32
2005-06	6.04	4.00	4.47	9.55	23.14
2006-07	5.94	4.60	5.39	7.81	22.96
2007-08	5.58	3.64	4.83	6.29	13.67
2008-09	4.45	4.80	4.62	4.49	15.83
2009-10	3.80	3.22	5.49	3.28	16.84
2010-11	2.76	0.68	5.73	1.89	12.42
2011-12	0.28	1.09	4.58	1.92	7.71
2012-13	-2.65	0.66	1.95	3.23	5.71
2013-14	-16.47	1.34	-24.30	3.66	7.42
Mean	1.51	2.96	1.71	4.73	14.80
S.D	-3.58	1.77	-6.47	2.38	6.26
C.V	-237.08	59.79	-378.36	50.31	42.29

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The above table shows that Manjeera construction represents a high net profit ratio in the year 2006-07 i.e., and RamkyInfra has a negative results in the year 2013-14 i.e., -24.30.Ivrcl,Ncc and Madhucon projects net profit gradually decreased from the year 2006-07 to 2013-14,Ramkyinfra and Manjeera construction ratios were fluctuated year to year. This ratio is very useful as if the profit is not sufficient, the firm shall not be able to achieve a satisfactory return on investment. This ratio also indicates the firm capacity to face adverse economic conditions such as price competition, low demand, etc.The high net profit of select companies denotes that all companies able to meet the obligations.

TABLE-7: INTEREST COVERAGE RATIO

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	4.09	9.85	4.25	19.40	7.58
2005-06	2.81	5.89	4.33	21.20	4.03
2006-07	3.22	4.58	3.81	35.58	8.26
2007-08	3.88	3.28	3.41	3.92	8.35
2008-09	3.91	3.55	2.59	11.02	4.25
2009-10	3.34	3.71	3.78	21.44	5.77
2010-11	2.58	1.14	5.39	3.20	2.13
2011-12	1.09	1.24	2.81	8.26	1.40
2012-13	0.80	1.01	1.53	3.66	1.31
2013-14	0.20	1.28	-2.20	1.90	1.39
Mean	2.59	3.55	2.97	12.96	4.45
S.D	1.33	2.62	1.73	10.50	2.74
C.V	51.35	73.80	58.24	81.01	61.57

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

From the above table shows that Madhucon projects represents a high interest coverage ratio in the year 2006-07 i.e., 35.58 whereas RamkyInfra was registered a negative ratio in year 2013-14 i.e., Ivrcl,Ncc and Manjeera construction interest coverage ratio was fluctuated among years. Interest coverage ratio indicates that the number of times interest is covered by the profits available to pay the interest charges. Generally, A high interest coverage ratio more safe the long-term creditors because even if earnings of the firm fall, the firm shall be able to meet its commitment of fixed interest charges.

TABLE-8: EARNING PER SHARE

EARNING PER SHARE					
YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	33.40	10.06	24.32	29.78	7.43
2005-06	8.69	5.55	26.47	9.02	8.24
2006-07	10.91	7.08	54.52	11.27	9.33
2007-08	15.77	6.72	10.32	12.80	4.25
2008-09	16.93	9.07	13.75	12.71	8.08
2009-10	7.91	6.37	20.79	6.20	8.11
2010-11	5.91	1.40	27.51	4.39	8.24
2011-12	0.68	2.24	25.12	4.71	6.13
2012-13	-3.31	1.58	10.48	4.58	4.26
2013-14	-23.36	2.01	-75.55	4.30	3.08
Mean	7.35	5.21	13.77	9.97	6.71
S.D	9.19	3.03	-10.55	7.38	2.03
C.V	125.03	58.15	-76.59	74.02	30.25

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

RamkyInfra represents a high earning per share in the year 2006-07 i.e., 54.52 and produce negative earnings per share in the year 2013-14 i.e.,-75.55.Madhuconprojects, Manjeeraconstruction and Ncc companies of earning per share were fluctuated among the years of 2004-05 to 2013-14.Ivrcl was registered high ratio in the year 2004-05 i.e., 33.40 whereas to low earning per share in the year 2013-14 i.e., -23.36, the remaining periods were fluctuated. A high earning per share is a good measure of profitability and when compared with earnings per share of similar other companies, it gives a view of the comparative earnings or earning power of a firm.

TABLE-9: RETURN ON CAPITAL EMPLOYED

YEAR	IVRCL	NCC	RAMKY INFRA	MADHUCON PROJECT	MANJEERA CONSTRUCTIONS
2004-05	15.77	13.81	37.32	22.20	17.25
2005-06	13.59	14.21	35.99	9.83	18.74
2006-07	14.83	17.71	22.51	11.43	20.03
2007-08	17.12	16.18	18.74	12.87	15.18
2008-09	17.99	16.36	19.42	11.87	16.36
2009-10	18.64	10.91	22.61	9.42	12.95
2010-11	14.85	9.78	19.56	10.52	21.33
2011-12	11. 63	11.15	18.16	13.14	10.54
2012-13	5.96	9.71	12.52	12.57	9.80
2013-14	2.34	14.28	-22.98	14.45	10.62
Mean	13.27	13.41	18.38	12.83	15.28
S.D	5.02	2.73	10.46	3.45	3.94
C.V	37.82	20.35	56.90	26.73	25.78

Source: Compiled Annual reports from 2004-05 to 2013-14

INTERPRETATION

The above table states that RamkyInfra represents a high return on capital employed in 2004-05 i.e., 37.32 and it produces a negative ratio in the year 2013-14 i.e., -22.98.Ivrcl,Ncc,Madhucon projects and Manjeera constructions are fluctuated. Return on capital employed is a prime test of the efficiency of business. The return on capital employed was more than the standard norm of 12 percent. A high return on capital employed may help in devising future business policies for expansion or diversification.

CONCLUSION

Liquidity position of select companies was some extent satisfactory, whereas solvency performance of selected companies has been fluctuating in the study period and profitability performance was some extent satisfactory. Hence, it is better to initiate steps for enhancing the liquidity solvency and profitability position of the sample companies to increase the value of the companies. A low current ratio may be the following reasons (i)there may not be sufficient funds to pay off liabilities.(ii)the business may be trading beyond its capacity. A high quick ratio is an indication that the firm is liquid and has the ability to meet its current liabilities in time and a low quick ratio represents that the firm's liquidity position is not good. The select companies may not able to get credit without paying high rates of interest and without accepting undue pressures and conditions of the creditors. A very low long term debt equity ratio indicates that the select companies had depended upon the owned funds rather than borrowed funds. A low gross profit ratio indicates that high cost of goods sold due to unfavorable purchasing policies, lesser sales, lower selling prices, excessive competition, over-investment in plant and machinery. The net profit ratio is very useful as if the profit is not sufficient, the firm shall not be able to achieve a satisfactory return on investment. This ratio also indicates the firm capacity to face adverse economic conditions such as price competition, low demand, etc.The high net profit of select companies denotes that all companies able to meet obligations. A high interest coverage ratio safer the long-term creditors because even if earnings of the firm fall, the firm shall be able to meet its commitment of fixed interest charges. A high earning per share is a good measure of profitability and when compared with earnings per share of similar other companies. It gives a view of the comparative earnings or earning power of a firm. A high return on capital employed may help in devising future business policies for expansion or diversification. The management of the companies shall improve the current ratio either by increasing the quantifying of current assets or by reducing the current liabilities. The company shall deploy the more debt funds so as to enjoy the benefits of trading on equity. The management shall reduce the establishing expenses so as to improve the net profit performance.

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