CHAPTER V

ANALYSIS AND INTERPRETATION OF FINANCIAL PERFORMANCE OF SELECTED SECTOR OF INDIA AND UNITED ARAB EMIRATES [UAE]

5.1 INTRODUCTION:-
The study focuses on seven leading sectors of India and UAE of the total sample of 40 companies, 20 belong to India and 20 belong to UAE. A comparative analysis of the financial performance of the selected sectors from India and UAE is presented below:-

1. Banking Sector
2. Cement Sector
3. Insurance Sector
4. Pharmaceutical Sector
5. Telecommunication Sector
6. Iron and Steel Sector
7. Information Technology [IT] Sector (India) & Construction Sector (UAE)

The figures of each mean ratio of all the companies are computed along with industry average. Following detailed observations pertaining to financial performance of selected companies are derived after application of Ratio Analysis Technique. Ratios are Current Ratio, Quick Ratio, Debt Equity Ratio, Debt to Total Capital, Total Assets Turnover Ratio, Fixed Asset Turnover Ratio, Return on Assets, Return on Capital Employed, Net Profit Ratio.

To facilitate comparison, Companies - wise, Year - wise, Companies mean of ratios were computed for each selected sector from India and UAE. Then the average of co – means for every sector of India and UAE have been taken for further derived of comparison. Same method was used for every sector under study belonging to both India and UAE.
The above Table No. 5.1 give a clear picture about the financial performance of banking sector in India and UAE.

The Indian banking sector is observed to have current ratio and quick ratio of 1.32 as against 1.19 and 1.26 of UAE.

The Debt-Equity ratio of Indian banking sector is observed to be at 1.83 which is higher than the UAE banking sector. It means that the Indian banks are using larger proportion of debt funding.

The Debt to total capital ratio is also higher for Indian banks than that for UAE banks. It means that the banks in UAE are providing larger security to their shareholders as well as creditors by maintaining low Debt to total capital ratio.

The total assets turnover ratio is higher for UAE banking sector (2.00). This shows better utilization of assets by the UAE banking sector in comparison with that of the Indian banking sector.

The Fixed asset turnover ratio is almost similar for both UAE and India. The Indian banks are however observed to be giving better returns on assets (1.66) over the UAE banking sector (1.27). This may be mainly due to the higher proportion of debt funding opted by the banks.

The Return on Assets ratio is higher for banking sector in India over that for UAE. This reflects the relationship between the net profit and the assets. Further the Return
on capital Employed is marginally higher for Indian banks than the UAE banking sector.

A huge difference is observed in the profitability of the banking sector of UAE and India. It is seen that the net profit is 3.77 for Indian banks while that for UAE is only 1.60. This in itself depicts the efficiency of the banking sector in India over that in UAE.

**Conclusion:-**

The trend of the Return on Assets and Return on Capital Employed India and UAE Banks point-out healthy sign. It has been observed throughout that Return on Capital Employed of India banks is more and increasing trend is observed. There is an investment opportunities in India banks because it can be inferred that the Indian banks need to be more efficient in their asset utilization. At the same they should also provide for better debt equity ratio. On the contrary the UAE banking sector needs to work on profitability.
Table No. 5.2
CEMENT SECTOR

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>RATIO</th>
<th>INDIA</th>
<th>UAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Ratio</td>
<td>1.07</td>
<td>1.05</td>
</tr>
<tr>
<td>2</td>
<td>Quick Ratio</td>
<td>0.96</td>
<td>1.10</td>
</tr>
<tr>
<td>3</td>
<td>Debt. Equity Ratio</td>
<td>1.83</td>
<td>1.33</td>
</tr>
<tr>
<td>4</td>
<td>Debt. To Total Capital</td>
<td>0.62</td>
<td>0.56</td>
</tr>
<tr>
<td>5</td>
<td>Total Assets Turnover Ratio</td>
<td>4.22</td>
<td>1.24</td>
</tr>
<tr>
<td>6</td>
<td>Fixed Asset Turnover Ratio</td>
<td>4.34</td>
<td>2.16</td>
</tr>
<tr>
<td>7</td>
<td>Return on Assets</td>
<td>2.90</td>
<td>1.21</td>
</tr>
<tr>
<td>8</td>
<td>Return on Capital Employed</td>
<td>2.79</td>
<td>3.28</td>
</tr>
<tr>
<td>9</td>
<td>Net profit</td>
<td>3.12</td>
<td>2.13</td>
</tr>
</tbody>
</table>

Source: - Calculations made by the Researcher on the basis of the Stock Exchange Annual Report for both the Countries i.e. India and United Arab Emirates.

The above given Table No. 5.2 give the financial performance of Cement Companies in India and UAE.

The Cement Companies in India as well as UAE is observed to have similar current ratio of 1.07 and 1.05 respectively. The quick ratio of Cement companies in India is observed to be 0.96 while that for UAE is 1.10. It can thus be inferred that the cement companies in both India and UAE show a similar trend with less blocking of funds in current assets.

The Debt-Equity ratio of Cement Companies is observed to be at 1.83 which is higher than the UAE cement companies. It means that the Indian cement company is using larger proportion of debt funding.

The Debt to total capital ratio is substantially higher for Indian cement companies (0.62) than that for UAE cement companies (0.56). This shows that the cement company in UAE is providing larger security to their shareholders as well as creditors by maintaining low Debt to total capital ratio.

In case of the total assets turnover ratio it is observed that the cement companies in UAE bears a low ratio at 1.24. On the other hand the Indian cement company has a higher total assets turnover ratio (4.22). This shows better utilization of assets by the Indian cement companies in comparison with that of the UAE cement companies.
The Fixed asset turnover ratio is higher for Indian cement companies than that for UAE cement companies. It can be inferred that the cement companies in India is giving better returns on assets (4.34) over the UAE Cement companies (2.16). This indicates better utilization of fixed assets by the cement companies in India. 

The Cement companies in India excel with higher return on assets ratio in comparison with the UAE cement companies. The efficient financial performance is indicated from this.

The Return on capital Employed is substantially higher for UAE cement companies than the Indian cement companies. It means that the cement companies in India are not able to fetch returns in proportion with the capital employed. On the contrary the cement companies of UAE are observed to have more than three times profit of the capital employed.

A huge difference is observed in the profitability of the cement companies of UAE and India. It is seen that the net profit margin is 3.12 for Indian cement companies while that for UAE is only 2.13. This in itself depicts the efficiency of the cement companies in India over that in UAE.

**Conclusion:-**

The net profit ratio Analysis of India and UAE cement companies reveals high fluctuation during the period under study. This indicates that higher proportion of investment needed because Indian cement companies play a major role in the growth rate in India economy. India ranks second in the production of cement in the world the export of the cement in the year 2006-07 was 9.3 million tones.
The above given Table No. 5.3 present the financial performance of Insurance Companies in India and UAE.

The Indian Insurance companies show the current ratio 1.35 as against 0.92 UAE, It is observed that UAE Insurance Companies is having current ratio of less than 1. This reveals maximum utilization of debt and not locking of capital, and on other hand Quick Ratio of Indian Insurance Companies at 1.24 as against 1.23 UAE Insurance Companies. It can thus be inferred that the Insurance companies in both India and UAE show a similar trend with less blocking of funds in current assets.

The Debt-Equity ratio of Indian Insurance companies is observed to be at 2.09 which are higher than the UAE Insurance companies. It means that the Indian Insurance companies are using larger proportion of debt funding

The Debt to total capital ratio is also higher for Indian Insurance Companies than that for UAE Insurance Companies. Which show a similar trend and UAE Insurance Companies are providing larger security to their shareholders as well as creditors by maintaining low Debt to total capital ratio as compare to Indian Insurance Companies.

The total assets turnover ratio is higher for Indian Insurance companies (2.04). This shows better utilization of assets by the Indian Insurance companies in comparison with that of the UAE Insurance companies.
The Fixed asset turnover ratio is higher for UAE Insurance companies as against Indian Insurance companies. It can be inferred that the Insurance companies of UAE is giving better returns on assets (3.34) over the Indian Insurance companies (2.54). This indicates better utilization of fixed assets by the Insurance companies in UAE.

The Insurance companies in UAE excel with higher return on assets ratio in comparison with the Indian Insurance companies. This gives a clear picture of financial performance.

The Return on capital Employed is substantially higher for UAE Insurance companies than the Indian Insurance companies. It means that the Insurance companies in India are not able to fetch returns in proportion with the capital employed.

A similar trend is observed in the profitability of the Insurance companies of both India and UAE. It is observed that the Net Profit Margin is 3.72 for Indian Insurance Companies on the other hand UAE 3.70. This is efficiency a better utilization of total resources

**Conclusions:-**

Insurance companies of India and UAE, Net profit Ratio show a similar and moderate return during the study. The increase in net profit India Insurance companies during the period of study is on account of number of steps taken by the Government. There is a investment opportunities between India and UAE, since Insurance companies acts as a medium of collateral security for the smooth functioning of trade and commerce across and within borders and Insurers invest policyholder's funds in the national economy that assures continued investment in a dynamic economy.
Table No. 5.4
PHARMACEUTICAL SECTOR

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>RATIO</th>
<th>INDIA</th>
<th>UAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Ratio</td>
<td>1.39</td>
<td>0.89</td>
</tr>
<tr>
<td>2</td>
<td>Quick Ratio</td>
<td>1.30</td>
<td>0.69</td>
</tr>
<tr>
<td>3</td>
<td>Debt. Equity Ratio</td>
<td>1.67</td>
<td>1.35</td>
</tr>
<tr>
<td>4</td>
<td>Debt. To Total Capital</td>
<td>0.59</td>
<td>0.74</td>
</tr>
<tr>
<td>5</td>
<td>Total Assets Turnover Ratio</td>
<td>1.60</td>
<td>1.62</td>
</tr>
<tr>
<td>6</td>
<td>Fixed Asset Turnover Ratio</td>
<td>3.88</td>
<td>2.07</td>
</tr>
<tr>
<td>7</td>
<td>Return on Assets</td>
<td>1.37</td>
<td>1.61</td>
</tr>
<tr>
<td>8</td>
<td>Return on Capital Employed</td>
<td>2.36</td>
<td>3.30</td>
</tr>
<tr>
<td>9</td>
<td>Net profit</td>
<td><strong>3.91</strong></td>
<td><strong>2.39</strong></td>
</tr>
</tbody>
</table>

Source: - Calculations made by the Researcher on the basis of the Stock Exchange Annual Report for both the Countries i.e. India and United Arab Emirates.

The above Table No. 5.4 Present the Financial Performance of both India and UAE Pharmaceutical Companies.

The Indian Pharmaceutical Companies is observed to have Current Ratio of 1.39 as against 0.89 of UAE. Quick Ratio of Pharma companies of India and UAE at 1.30 and 0.69

Thus it show that both India and UAE Pharmaceutical Companies have huge different observed. UAE Pharmaceutical Companies is having Current and Quick Ratio of less than 1. This reveals maximum utilization of debt and not locking of capital.

The Debt-Equity ratio of Indian Pharmaceutical companies is observed to be at 1.67 which is higher than the UAE Pharmaceutical companies. It means that the Indian Pharmaceutical companies are using larger proportion of debt funding

The Debt to total capital ratio is substantially higher for UAE Pharmaceutical companies (0.74) than that for Indian Pharmaceutical companies (0.59). This shows that the Pharmaceutical companies in India is providing larger security to their shareholders as well as creditors by maintaining low Debt to total capital ratio

The detail of the total asset turnover ratio is almost similar for both UAE and India. UAE Pharmaceutical companies show better utilization of assets (1.62). Over the Indian Pharmaceutical companies (1.60)
In case of the fixed asset turnover ratio is higher for Indian Pharmaceutical companies than that for UAE Pharmaceutical companies. It can be Conclude that the Pharmaceutical Companies in India is giving better returns on assets (3.88) over the UAE Pharmaceutical Companies (2.07). This indicates better utilization of fixed assets by the Pharma companies in India.

The Pharmaceutical Companies in UAE gives higher return on assets ratio in comparison with the Indian Pharmaceutical companies. The efficient financial performance this results indicates the need for more work for give better return.

The Return on capital Employed is marginally higher for UAE Pharmaceutical Companies than the Indian Pharmaceutical Companies.

A vast difference is observed in the profitability of the Pharmaceutical companies of India and UAE. It is seen that the net profit ratio is 3.91 for Indian Pharma Companies while that for UAE is 2.39. This in itself depicts the efficiency of the Pharmaceutical Companies in India over that in UAE.

**Conclusion:-**

The comparative analysis of all Ratios Pharmaceutical companies of India and UAE show inverse relationship. It is observed that the increase in Net Profit in India Pharma companies results the Investments in India pharmaceutical companies are now expanding into areas of innovative R&D focused outsourcing opportunities like clinical trials, data management services, pharmaceutical informatics, lead discovery and optimization, Pharmaceutical co-kinetics and Pharmaceutical co-dynamics and pre-clinical drug discovery in combinatorial chemistry, chiral chemistry, new drug delivery Systems, bioinformatics and phyto-medicines. The Indian drug discovery market has grown from US$ 470 million in 2005 to US$ 800 million in 2007
The above Table No. 5.5 highlights the Financial Performance of Telecommunication Companies of India and UAE.

The details of Current Ratio of India as well as UAE are observed to have Similar 1.83 and 1.67 respectively. Thus it can be inferred that the Telecommunication Companies in both India and UAE show a similar trend with less blocking of the funds.

Quick Ratio of Telecom Companies of India and UAE is 1.32 and 1.51 Ratio is observed more than 1 which is considered satisfactory as a companies can easily meet all current claims.

The Debt-Equity ratio of Telecommunication Companies is observed to be 2.28 which are higher than the Indian Telecommunication companies. It means that the UAE Telecommunication Company is using larger proportion of debt funding.

The Debt to total capital ratio is also higher for UAE Telecommunication Companies than that for Indian Telecommunication Companies. It means that the Telecommunication Companies of India is providing larger security to their shareholders as well as creditors by maintaining low Debt to total capital ratio.
The total assets turnover ratio is higher for Indian Telecommunication companies (2.17). This shows better utilization of assets by the Indian Telecommunication Companies in comparison with that of the UAE Telecommunication companies. The Fixed asset turnover ratio is almost similar for both UAE and India. The UAE Telecommunication is however observed to be giving better returns on assets (2.77) over the Indian Telecommunication companies (2.66). This may be mainly due to the higher proportion of debt funding. The Telecommunication Companies in UAE excels with higher return on assets ratio with Indian telecommunication Companies. The efficient financial performance is indicated. The Return on capital Employed is marginally higher for Indian Telecommunication Companies than the UAE Telecommunication companies. An enormous difference is observed in the profitability of the Telecommunication companies of UAE and India. It is seen that the net profit is 3.84 for Indian Telecommunication Companies while that for UAE is only 2.81. This in itself depicts the effectiveness of the Telecommunication companies in India over that in UAE.

**Conclusion:-**

All Ratio position of India and United Arab Emirates [UAE] show variations. All selected telecom companies of India and UAE Profitability Ratio is subject to Volatility change. Hence, there is a vast investment opportunities between India and UAE Indian Telecom sector, like any other industrial sector in the country, has gone through many phases of growth and diversification. Starting from telegraphic and telephonic systems in the 19th century, the field of telephonic communication has now expanded to make use of advanced technologies like GSM, CDMA, and WLL to the great 3G Technology in mobile phones. Day by day, both the Public Players and the Private Players are putting in their resources and efforts to improve the telecommunication technology so as to give the maximum to their customers. On the other hand similar story of the UAE’s telecommunication market has shown tremendous growth over the recent past, mainly propelled by the government initiatives aimed at the deregulation of the market and introduction of competition. The TRA (Telecommunication Regulatory Authority) remains at the forefront of the success of the country’s telecom sector. It is continuously considering and evaluating ways to further intensify competition in the UAE telecom market.
The above given Table No. 5.6 gives a clear picture about the financial performance of Iron and Steel Companies in India and UAE.

The Current Ratio of India as well as UAE is observed at 1.36 and 0.88 respectively. Thus it can be inferred that the Iron and Steel Companies in both India and UAE show a similar trend with less blocking of the funds.

Quick Ratio of India and UAE are seemed similar trend at 1.39 and 1.37. The standard norm for Quick Ratio is considered as 1:1; in above table it has reached the level of 1:1.

The Debt-Equity ratio of Indian Iron and Steel Companies is shown at 1.61 which is higher than the UAE Iron and Steel Companies. It means that the Indian Iron and Steel Companies are using larger proportion of debt funding.

The Debt to total capital ratio is also higher of Indian Iron and Steel Companies as compare to UAE Iron and Steel Companies. Which show a similar trend and UAE Iron and Steel Companies are providing larger security to their shareholders as well as creditors by maintaining low Debt to total capital ratio as compare to Indian Iron and Steel Companies.
The detail of Total Assets Turnover Ratio is higher for Indian Iron and Steel Companies (2.06). This shows better utilization of assets by the Indian Iron and Steel Companies in comparison with that of the UAE Iron and Steel Companies.

The Fixed asset turnover ratio is higher for Indian Iron and Steel Companies than that for UAE Iron and Steel Companies. It can be inferred that the Iron and Steel Companies in India is giving better returns on assets (3.31) over the UAE Iron and Steel Companies (2.29). This indicates better utilization of fixed assets by the Iron and Steel Companies in India.

The examination reveals that the Iron and Steel Companies of UAE is higher Return on Assets Ratio in comparison with the Indian Iron and Steel Companies. The efficient financial performance is indicated.

The Return on capital Employed is slightly higher for Indian Iron and Steel Companies than the UAE Iron and Steel Companies.

A little bit difference is determined in the profitability of the Iron and Steel Companies both UAE and India. It is seen that the net profit margin is 2.51 for UAE Iron and Steel Companies while that for India is only 2.15. This in itself depicts the efficiency of the Iron and Steel Companies in UAE over that in India.

**Conclusion:-**

To some extent difference in all Ratios in India and UAE Iron and Steel companies. It represents the investment opportunities between India and UAE because UAE produced 1.7 million tons in 2007 and this output is expected to more than double by 2012. UAE Government exempted reinforced steel (together with cement) from custom duties. However, steel prices fluctuated throughout the period of study, affected almost as much by global prices as local conditions, the upward spiral in steel prices, surging by 91 per cent.
Table No. 5.7

BOOMING SECTORS OF INDIA AND UAE

During the course of study it was observed by the researcher that the IT sector in India and the Construction Sector of UAE were in high boom state. Hence it was felt necessary to study the financial performance of these sectors as well, to identify the huge investment potential in them. An attempt is made hereunder, to assess the financial performance of the IT companies in India and the Construction Companies in UAE as follows:-

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>RATIO</th>
<th>INDIA (I.T.)</th>
<th>UAE (CONSTRUCTION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Ratio</td>
<td>1.15</td>
<td>0.08</td>
</tr>
<tr>
<td>2</td>
<td>Quick Ratio</td>
<td>1.73</td>
<td>1.06</td>
</tr>
<tr>
<td>3</td>
<td>Debt. Equity Ratio</td>
<td>1.85</td>
<td>2.03</td>
</tr>
<tr>
<td>4</td>
<td>Debt. To Total Capital</td>
<td>0.58</td>
<td>0.41</td>
</tr>
<tr>
<td>5</td>
<td>Total Assets Turnover Ratio</td>
<td>1.85</td>
<td>4.55</td>
</tr>
<tr>
<td>6</td>
<td>Fixed Asset Turnover Ratio</td>
<td>5.73</td>
<td>3.35</td>
</tr>
<tr>
<td>7</td>
<td>Return on Assets</td>
<td>0.95</td>
<td>1.93</td>
</tr>
<tr>
<td>8</td>
<td>Return on Capital Employed</td>
<td>1.75</td>
<td>3.18</td>
</tr>
<tr>
<td>9</td>
<td>Net profit</td>
<td><strong>1.76</strong></td>
<td><strong>3.35</strong></td>
</tr>
</tbody>
</table>

Source: - Calculations made by the Researcher on the basis of the Stock Exchange Annual Report for both the Countries i.e. India and United Arab Emirates.

The above given Table No. 5.7 Present the financial performance of IT Companies of India and Construction Companies of UAE

The IT Companies in India as well as Construction Companies in UAE is observed to have current ratio of 1.15 and 0.08 respectively. The Quick Ratio of IT Companies in India is observed to be 1.73 while that for UAE Construction Companies is 1.06. It can thus be inferred that the IT Companies of India and Construction Companies of UAE show a more than one with less blocking of funds. However, surprisingly it is observed that the Construction Company of UAE is trailing successfully with low current and quick ratios. As the ratios are below one, it can be inferred that the companies is undertaking high risk with liabilities exceeding their assets.
The Debt Equity Ratio of UAE Construction Companies is observed to be at 2.03 than the India IT Companies. It means that the UAE Construction Companies is using larger proportion of debt funding.

The Debt to total capital ratio for Construction Companies of UAE (0.41) than that for IT Companies of India (0.58) This shows that the Construction Companies of UAE is providing larger security to their Shareholders as well as Creditors by maintaining low Debt to total capital ratio.

In case of the total assets turnover ratio it is observed that the IT Companies in India bears a low Ratio at (1.85). On the other hand the UAE Construction Companies has been a higher Total Assets Turnover Ratio (4.55). This shows a better utilization of assets by the UAE Construction Companies as against to India IT Companies.

The Fixed asset turnover ratio is higher for Indian IT Companies than UAE Construction Companies. It can be inferred that the IT Companies in India is giving better return on assets (5.73) over the UAE Construction Companies (3.35). This indicates that the better utilization of fixed assets by the IT Companies in India.

The Construction Companies in UAE excels with higher Return on Asset [1.93] on the other hand India IT Companies Return on Assets at [0.95] only.

The Return on capital Employed is substantially higher for UAE Construction Companies than the Indian IT Companies. It means that the IT Companies in India is not able to fetch Returns in proportion

A huge difference is observed in the profitability of the Construction Companies of UAE and IT Companies of India. It is seen that the net profit margin is 3.35 for Construction Companies of UAE while that for IT Companies of India is only 1.76. This in itself depicts the efficiency of the Both Sector in UAE Construction and in India IT.

**Conclusion:-**

A vast difference is observed in all Ratios of this Booming sector of Construction UAE and IT of India. At this point investment opportunities are present because during the period of study Construction company of UAE jumped a profits 180 percent to cross Dh4.72 billion for the year ended 31 December 2005, compared to the previous year’s Dh 1.691 billion property revenues increased by Dh 3.11 billion or
59 per cent to Dh 8.36 billion for the year ended 31 December, compared to Dh 5.24 billion in 2004.

And on the other hand India is being regarded as the hub and the base for worldwide IT solutions. Economic and industrial growth and a large consumer base are the additional and significant growth drivers for Indian IT industry. India's IT industry ranks among the fastest growing sectors within the country's economy. Driven primarily by software exports, the industry has been logging in extremely impressive year on year growth. It is the knowledge industry that will help take the Indian economy to a sustained higher rate of growth. Software development and IT enabled services’ have emerged as a niche opportunity for India in the global context.