A STUDY ON THE FINANCIAL PERFORMANCE OF CONSTRUCTION INDUSTRY IN INDIA DURING COVID-19

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Abstract

The primary purpose of this research paper is to analyse and interpret the financial performance and position of leading construction companies from around the world. The focused companies in this research includes Dilip Buildcon, KNR Constructions Ltd, NCC Ltd., Responsive Industries Ltd. And Ashoka Buildcon. The companies chosen are based on a criterion of top companies in the field of civil construction sector. Ratio analysis is the main tool that will be used for the analysis. Other tools will include charts to show the trends. The analysis will involve comparison for the half yearly financial results of 2018, 2019 and the first half of 2020. The research also sheds light into the impact of COVID-19 pandemic in the industry based on the selected company's financials.

Construction Industry is presumed to be impacted heavily by the COVID-19 pandemic. The problems faced include labour shortages, supply chain complications and financial constraints. The ripples of the initial outbreak in Wuhan, China is going on in the industry even as the first half of 2020 came to an end. Contracts will be affected across construction sites around the globe if such a crisis happens. The relevance of all these will be investigated by this study.

Keywords: Ratio Analysis, Construction, Pandemic, Construction, Supply Chain

Introduction

Construction industry is a crucial part of any economic development plan. It is critical for the industrial development of any state. Construction Industry can be classified on the basis of real estate which covers residential and commercial projects, State supported projects (Roads, Power, etc.) and industrial projects. Construction Industry particularly in this study is an umbrella term which covers activities facilitating trade, construction, maintenance, repair and many other related activities.

Prima facie the impact of the pandemic on the industry is massive. The industry is multi stakeholder, multi service and multi supply chain category and any impact on let alone one factor could cause huge ramifications. To quote a fact among many the industry in India is the second largest employer after agriculture which itself is just the tip of an iceberg.

The impact on selected companies and in turn the industry as a whole, will be investigated as this study progresses.

Review of Literature

Kangari, R., Farid, F., & Elgharib, H. M. (1992)

This study on the financial performance of construction industry uses ratio analysis as the tool. Selected ratios are applied on a selected company. This study aims to explore the financial performance in relation to business survival and failure eventuality. This study states that traditional analysis models developed for manufacturing industry is not suitable for the construction industry.

Lai, H. Y., Aziz, A. R. A., & Chan, T. K. (2014)

This study on the Effect of the global financial crisis on the financial performance of public listed construction companies in Malaysia shows how the industry reacted and responded in the face of a crisis. The findings state that the industry came through owing to government support and proper financial management on the part of companies.

Horta, I. M., Camanho, A. S., & Da Costa, J. M. (2012)

This study on the Performance assessment of construction companies investigates trends in the Portuguese construction industry performance to identify factors that contributes to innovation and excellence in the industry. This study brings to light that large contractors and small but specialized companies have the best performing levels.

Spicka, J. (2013)

This study on the financial condition of the construction companies before bankruptcy aims to discover the signs of upcoming bankruptcy situation in the Czech Republican construction industry which has been in severe crisis. The study compares financial performance of a set of companies that already went bankrupt with other set which have currently good metrics. The study finds that the firms prior to bankruptcy does not handle their debt obligations carefully in association to their profitability

Objectives

- To analyse the financial performance of selected companies in the sector between half years of 2018, 2019 and first half of 2020.
- To analyse the impact of COVID-19 pandemic on the companies and the industry.

Research Methodology

The study uses secondary data along with ratio analysis to analyse the situation of financial performance among the selected companies. The basic purpose of conducting this research was to understand the financial health of the construction industry. The impact of COVID-19 pandemic is also taken into consideration. Annual Reports, Quarterly Reports, Half Yearly Reports and data published on the company websites and related news articles have been used for the purpose of this research. To understand the problem in figures and not just in theory, we have also used ratios such as Liquidity, Leverage and Efficiency ratios which includes Current ratio, Debt to Equity ratio and Working Capital Turnover Ratio of five major companies in the sector.

The ratio to previous years are being analysed and compared. This comparison has been made graphically feasible using tables.

Current Ratio = Current Asset / Current Liabilities

Debt to Equity ratio = Total Debt / Shareholders Equity

Working Capital Turnover Ratio = Net Revenue / Average Working Capital

Theoretical Framework

Comparison of financial ratios between companies help to identify whether the company is performing above, below or on par with industry average. It will help investor to make various decisions easily with respect to company financials.

Liquidity ratios helps in assessing company's ability to settle short term debts with assets available. It gives a picture on whether the company can pay off if all of its short-term debts become due suddenly.

Leverage ratios assess how a company finance its operations and assets, as to whether with debts or investments. It investigates whether too much debt is used.

Efficiency ratios assess how well the company uses its assets and liabilities. It focuses on how these assets produce revenue.

To get a general and concise image of the industry Current ratio, Debt to Equity ratio and Working Capital Turnover Ratio which falls under each of the prior mentioned types of ratios are taken for this research. These ratios are ideal for construction industry.

Analysis and Interpretation

CURRENT RATIO					
	2020	**2019**	**2018**	**2017**	**2016**
Dilip Buildcon	1.23	1.3	1.37	1.09	1.05
KNR Constructions Ltd.	1.85	1.47	1.46	1.16	1.4
NCC Ltd.	1.27	1.24	1.26	1.27	1.27
Responsive Industries Ltd.	0.98	1.15	1.33	1.23	1.24
Ashoka Buildcon	1.11	1.01	1.08	1.13	1.35

DEBT-EQUITY RATIO					
	2020	**2019**	**2018**	**2017**	**2016**
Dilip Buildcon	0.76	1	1.13	1.19	2.02
KNR Constructions Ltd.	0.13	0.17	0.18	0.15	0.15
NCC Ltd.	0.32	0.37	0.27	0.45	0.56
Responsive Industries Ltd.	0.25	0.17	0.25	0.42	0.53
Ashoka Buildcon	0.14	0.33	0.06	0.1	0.16

WORKING CAPITAL TURNOVER RATIO					
	2020	**2019**	**2018**	**2017**	**2016**
Dilip Buildcon	6.65	5.41	4.04	15.96	28.06

KNR Constructions Ltd.	2.9	7.29	7.22	17.59	6.06
NCC Ltd.	4.04	6.2	4.7	5.3	5.3
Responsive Industries Ltd.	-114.3	30.17	9.57	20.9	17.6
Ashoka Buildcon	16	167.64	18.63	10.34	5.36

The Current Ratios over the period of 2020 of Responsive Industries Ltd. is not good as it is below 1. The company should at least try to make it to 1 which is the desired position. For construction industry experts ideally suggests a ratio of 1.3 if possible. Other companies however crossed the line to the safe side with a ratio of 1.25 in the first half of 2020.

Debt Equity Ratio shows that from a leverage standpoint Ashok Buildcon and Responsive Industries have concerning figures below the ideal rate of 3 during the following years of analysis. All the companies during the year 2020 have only a slightly positive ratio which shows that the debt-equity of the companies must be managed carefully for the future as it may result in slightly higher debt for the companies.

Working Capital turnover has not been satisfactory for Responsive Industries Ltd. as the company has got a negative working capital turnover ratio of -114.3 which shows that the company has a dissatisfactory amount of working capital. The other following companies have constantly become positive, which results in adequate amount of working capital management.

Impact of COVID-19 pandemic

The impact overall for the construction Industry due to COVID-19 has been catastrophic. Most of the firms particularly the ones under study have recorded losses in the first half of the year 2020. Most of these companies have incurred losses after a considerable duration without losses. The industry as said before is multi stakeholder, multi service and multi supply chain category which increased the extent of impact as pandemic affected multiple verticals simultaneously. It was so unlike any crisis and even worse than the global financial crisis of 2007-08 because of its wider and deeper impact.

Being a highly volatile industry, the construction companies was already facing constraints in different metrics even before the pandemic. The impact of Covid 19 on the infrastructure and construction sector in India has been extensive and damaging. The restrictions imposed by the Government of India, State Governments and the Union Territories to control the spread and impact of the virus have prevented work on projects, adversely impacted supply chains, plant, equipment, materials and manpower. Delays and disruptions to completion of projects are inevitable with concomitant losses, cost and expenses. Those involved in the construction industry need to be alert to the contractual and other provisions which govern entitlements to the potential recovery of these exposures. All of such entitlements are likely to be subject to time critical notice requirements and whilst some may be familiar with the concepts of "force majeure" which is enshrined in many contracts, the assertion of the occurrence of force majeure may have unintended consequences. Contractors and Employers alike therefore need to be aware of the existence of particular contractual entitlements to extensions of time to complete and for the payment of additional costs in relation to their projects. Such clauses are likely to be subject to certain conditions governing their operation. Generally speaking, no two contracts are identical and may have material differences in the way in which they approach such matters and it is therefore not possible to provide any generic contractual panacea for those involved in the construction sector. However, many EPC and other contracts in India take as their base the FIDIC forms of contract, in particular the "Silver Book" and this Note therefore focusses upon the rights and obligations prescribed by that Form in the context of the Covid problems. There will inevitably be contracts with unique changes to the FIDIC Form and this note can only serve as a preliminary guide but one which hopefully will catalyse thinking of the steps to be taken to moderate the impact of Covid 19 and preserve and implement rights and protections under contract.

The companies which made profit during pandemic times are there but the net profit is considerably low compared to its prior year. These companies are mostly the large ones with diversified operations but who still have construction as its major business. Businesses which only focuses on construction and engineering is severely affected by this crisis. They are not able to mobilise available resources to manage the crisis let alone the financial side impact of it. Loss has been the result for most of the companies under the study which in turn cause the risky industry to go into survival mode. The pandemic has caused the businesses to take countermeasures to not just increase profitability but also to keep the business afloat to grow. This scenario is a proof for the fact that the coronavirus pandemic has affected the companies not only in its profitability metrics like the case in Lai, H. Y., Aziz, A. R. A., & Chan, T. K. (2014) but also multiple levels like liquidity, leverage and efficiency.

Key Findings

Construction Industry is a highly risky and volatile industry.

The companies chosen were already facing issues under various parameters even before pandemic.

COVID-19 worsened the situation for firms by bringing in losses.

Government intervention and effective and efficient management on the present scenario proved to be helpful for survival.

Large and diversified firms have more chance of survival.

Limitations

Secondary data used for the purpose of research is collected from annual reports, published reports and websites and findings will be based entirely on the accuracy of the used data.

The study is based on present scenario of financial ratios and it lacks future projection based on future fluctuations.

Conclusion

This study measures the financial performance and position through simple but effective techniques. Construction is a risky and volatile industry. Survival is a key factor in this industry. The COVID-19 pandemic had a devastating impact on the industry. It bought in survivability into the picture. The research has found out that COVID-19 had significant impact in the results of 2020. The COVID-19 has amplified ongoing issues along with new issues. The research also found out that there have been certain unusual eventualities.

In case of Responsive Industries Ltd., a drastic change in debt equity was witnessed in 2019 and 2020. As per the investigation it is found out that the company went through this significant shift due to its decision to exit by selling its stake in BIC Contracting. The company has also won multiple contracts over the pandemic times around the globe which actually is a sign that proper financial planning and management is really a game changer in the face of adversity, which also shows that the companies who follow appropriate strategies may lead to sustainability of the firm in the country.

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