A STUDY ON FINANCIAL PERFORMANCE OF SELECTED CEMENT COMPANIES IN TAMILNADU

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ABSTRACT

In India, the cement industry is the second most consumed material on the planet. The cement companies have seen a net profit growth rate of 85 per cent. With this huge success, the cement industry in India has contributed almost 8 per cent to India’s economic development. Nowadays, the cement industry is growing fast and to know, how the and to know, how the sales, to measure the short term and the long term financial feasibility, to identify the factors that influences the profitability status of the selected cement companies in Tamil Nadu.

I. INTRODUCTION

The Indian cement industry has evolved significantly in the last two decades, going through all the phases of typical cyclical growth process. With sound economic growth and infrastructure development, the demand for cement is on an upward trend, further addition to capacity is coming up to cater to the increasing demand for cements. India, being the second largest cement producer in the world after China with a total capacity of 151.2 Million Tonnes (MT), has got huge Cement Company. With the government of India giving boost to various infrastructure projects, housing facilities and road networks, the cement industry in India is currently growing at an enviable pace.

Cement is a global commodity, manufactured at thousands of local plants. The cement industry in India is dominated by around 20 companies, which account for almost 70 per cent of the total cement production in India. Because of its weight, cement supply via land transportation is expensive, and generally limited to an area within 300 km of any one plant site. The industry is consolidating globally, but large, international firms account for only 30 per cent of the worldwide market. China is the fastest growing market today. Because it is both global and local, the cement industry faces a unique set of issues, which attract attention from communities near the plant, at a national and an international level.

OBJECTIVES

- To study the financial performance of 3 J Cement industry based on Liquidity, Performance and Efficiency ratios.
- To ascertain the effective utilization of financial resources.
- To study the short-term and long-term solvency of the selected companies.
- To give an idea to the investors to make investments this will be based on the outcome of the study.
- To provide useful suggestions to improve the financial performance of the companies selected for the study.

The term ‘financial performance analysis also known as analysis and interpretation of financial statements’, refers to the process of determining financial strength and weaknesses of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data. “Financial performance analysis is a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm’s position and performance. The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm.

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Operational Definitions: The most cost commonly ratios used in the financial field include:

- **Current Ratio**: The current ratio is a liquidity ratio which estimates the ability of a company to pay back short-term obligations. This ratio is also known as cash asset ratio, cash ratio, and liquidity ratio. A higher current ratio indicates the higher capability of a company to pay back its debts. The formula used for computing current ratio is: current Assets / current liabilities.

- **Quick Ratio**: The quick ratio, also referred as the “acid test ratio” or the “quick assets ratio”, this ratio is a gauge of the short term liquidity of a firm. The quick ratio is helpful in measuring a company’s short term debts with its most liquid assets.

- **Inventory Turnover Ratio**: The number of times you turn inventory over into sales during the year or how many days it takes to sell inventory. This is a good indication of production and purchasing efficiency. A high ratio indicates inventory is selling quickly and that little unused inventory is being stored (or could also mean inventory shortage). If the ratio is low, it suggests overstocking, obsolete inventory or selling issues.

- **Debt-to-equity ratio**: The debt-to-equity ratio, is a quantification of a firm’s financial leverage estimated by dividing the total liabilities by stockholders’ equity. This ratio indicates the proportion of equity and debt used by the company to finance its assets.

- **Return on Assets ratio**: Measures your ability to turn assets into profit. This is a very useful measure of comparison within an industry. A low ratio compared to industry may mean that your competitors have found a way to operate more efficiently. After tax interest expense can be added back to numerator since ROA measures profitability on all assets whether or not they are financed by equity or debt.

**II REVIEW OF LITERATURE**

Chakraborty (2010) employed two performance measures, including ratio of profit before interest, tax and depreciation to total assets and ratio of cash flows to total assets and two leverage measures, including ratio of total borrowing to assets and ratio of liability and equity, and reported a negative relation between these ones.

Hajihassani (2012) presented A Comparison of Financial Performance in Cement Sector in Iran. This study presents comparison of financial performance for the period 2006–2009 by using financial ratios and measures of cement companies working in Iran. Financial ratios are divided into three main categories and measures including two indicators. This work concludes that the performance of cement companies on the basis of profitability ratio is different than on the basis of liquidity ratio, leverage financial.

Samuel (2012) analyzed the financial performance of the company on various fronts of profitability, liquidity and turnover and concluded that the overall performance of the India Cements Ltd. is good

Kaur and Silky (2013) analyzed the working capital management in terms of profitability and liquidity through the regression analysis to find out the impact of liquidity on profitability. Correlation analysis was used to find out the relationship between liquidity with profitability and revealed that the profitability and liquidity are inversely related or that there must always be a trade-off between profitability and liquidity.

Panigrahi (2013) examined the liquidity position of five leading Indian cement companies for the period of 10 years viz, 2000-2001 to 2009-2010. He used ratio analysis, and Motaal’s ultimate rank test to analyse the data and found that the liquidity position of small companies are better as compared to big ones and most interestingly the growth rate of current ratio, quick ratio and working capital to current assets of all the companies are negative which indicates an unsound liquidity position.

**Limitation of the study**

- This study is based on the secondary data
- Ratio analysis suffers from various drawbacks and the standard norms for ratio also vary from industry to industry and hence interpretation could not be set with high degree of accuracy.
- The data are secondary in nature and any bias in them reflects in the analysis and the conclusion of the study.
- The period of study is limited to five years.
- These limitations are minimized and explicitly stated wherever need attention.

**III. PROFILE OF THE SELECT COMPANIES**

Cement is an essential component of infrastructure development and most important input of construction industry, particularly in the government’s infrastructure and housing programs, which are necessary for the country’s socio-economic growth and development.

- ACC Limited

ACC (ACC Limited) is India’s foremost manufacturer of cement and concrete. ACC’s operations are spread throughout the country with 17 modern cement factories, more than 40 Ready mix concrete plants, 21 sales offices, and several zonal offices. ACC has a unique track record of innovative research, product development and specialized consultancy services.
• Ultratech Cement Limited

UltraTech Cement was established in 1987 and emerges as a prominent player of cement industry. Over the years company has achieve incredible success and today it is counted among the top 10 cement manufacturing companies of India. Ultratech Cement was incorporated in 2000 as Larsen & Toubro. Later it was demerged and acquired by Grasim and was renamed as Ultra Tech Cement in 2004. Today UltraTech cement a part of Aditya Birla Group, is the country’s largest exporter of cement clinker. UltraTech Cement Limited has an annual capacity of 52 million tonnes.

• The India Cements Limited

The India Cements Limited began its humble moorings in the form of a cement factory at Talaiyuthu, an almost unmapped tiny hamlet in Tirunelveli district, Tamil Nadu. As one of the oldest Indian corporate, established in 1946, the company set up its first plant in 1949 at Sankarnagar (Talaiyuthu). Indian Cement is a leading cement manufacturing company of India and capture huge market share of cement industry. Over the years India Cements has become the largest cement manufacture of South India and almost acquire 30% of cement market.

• The Ramco Cements Limited

The Ramco Cements Limited is one of the best performing, highly efficient producers of Fibre Cement Sheets in India and is the Market leader. Ramco's first asbestos cement sheet plant was set up at Arakkonam (Tamil Nadu) in 1967 and since then the production technology has been updated continuously. The second sheet plant was commissioned at Karur (Tamil Nadu) in 1974 followed by one more sheet plant at Maksi (Madhya Pradesh) in 1987. This was the first plant in India to introduce pipes of 5 M length and diameters of above 600 mm.

• Chettinad Cement Corporation Limited

Chettinad Cement established in 1962 with a wet process cement plant at Puliyur near Karur. Chettinad cement has been expanding and making itself versatile in the field of cement products. Chettinad Cement has established its position in the southern market by innovatively aligning its products and services to the needs of cement users. For over four decades, the Chettinad cement companies have built a reputation for serving the construction industry with high-performance products that encourage creativity and ensure longevity.

IV. ANALYSIS AND INTERPRETATION

CURRENT RATIO:

This ratio is an indicator of firm’s commitment to meet its short-term liabilities. Higher ratio, better the coverage. 2:1 ratio is treated as standard ratio. This ratio is also called as solvency / working capital ratio. The current ratio is the ratio of the current assets and current liabilities. It is calculated by dividing current assets by current liabilities.

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\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}
\]
The current ratio is a financial ratio that measures an industry has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities. Above graph show the current ratio increase from in the year of 2014-15 and 2016-2017. It means the industry next five year current assets and current liability was increase.

DEBT EQUITY RATIO:

It measures the relation between debt and equity in the capital structure of the firm. In other words, this ratio shows the relationship between the borrowed capital and owner’s capital.

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\text{Debt equity ratio} = \frac{\text{long term debt}}{\text{shareholders’ equity}}
\]

A measure of an industry financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the industry is using to finance its assets. Above graph show the industry debt equity ratio was decrease in the year of the 2012-2014. 2015-2017 it is good position in the market.

FINDINGS:

- The liquidity ratio shows the liquidity position of the company. The liquidity ratios that are included or used are current ratio, quick ratio.
- The current ratio of the company is below the standard norms 2:1. This shows the company has no significance growth to meet the short-term application.
- Quick ratio is decreased compared to previous year this shows the lack of concentration on quick assets.
- The financial leverage ratio is used to know about the financial strengths and weakness of the company. The financial leverage ratio includes debt-equity ratio, and proprietary ratio.
- There is a substantial increase in debt equity ratio showing the difference between outsiders fund and shareholders fund.
- The proprietary ratio has been decreased when compared to the satisfactory level.
- Activity ratio or turnover ratio which includes, inventory turnover, debtors turnover, creditors turnover, working capital turnover.
- Debtors turnover ratio has been increased from year to year.
- Working capital turnover ratio also increased from year to year this shows the business position is good to meet the day-to-day expenses.
- The profitability ratio shows the profitability of the company it includes, grossprofit, net profit return on capital employed.
- Gross profit ratio is decreased from the previous year this shows the maintenance of cost of goods sold and the direct expenses are not in good position.
- Net profit has been increased from year to year this shows the margin level over a time.
SUGGESTIONS:
As there is boom in the real estate business there is really high potential for increased demand for cement. The ready mix concrete business is also in its full swing, which gives much scope for construction industry. The following suggestions are highlighted by the researcher.

- The solvency position of the cement companies can be further improved to increase the productivity with a view to meet the increased demand.
- As there is a continuous technological upgradation in the industry, the Indian cement companies should plan for modernization of their units.
- As 93% of the cement companies are already in the dry process the remaining 7% can also change the modern technology, which will ensure productivity.
- As only few of the major manufactures are doing the ready mix business the other manufacturers may also concentrate on the business.

CONCLUSION:

The change in the economic condition and opening up of the economy and India being a signatory to the WTO, it can be observed that the Indian cement industry is in for a heavy shakeup in addition to this the industry being a capital intensive one and a squeeze of profitability margins it may be right for the Indian cement industry to look for some innovative ideas to improve their margins.

Thus the Indian cement company should try and manufacture a product at a lesser cost, although it seems not feasible as the cost of cement depend on the power tariffs existing ground the country. The company can look at the route of captive power generation, which may be an answer to this problem of high power tariffs.

REFERENCES: