



A Study on Financial Performance of Selected Cement Industries in Tamil Nadu State

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Abstract

The cement industry is selected for research due to several important reasons. Cement is a basic core product, essential for building our nation and its growth is intrinsically linked with the overall growth of the economy and more importantly with the growth of the infrastructure sector. The lack of adequate roads, port, power and other infrastructure could prove to be a big hindrance to the rapid growth of the country. A scientific approach to the research methodology is very much essential to evaluate the research problem systematically. The present study is fully focused on the secondary data which are collected from the different sources. A meticulous effort has been to collect the required and relevant data. Prowess database of the Centre for Monitoring Indian Economy (CMIE) is the most reliable authenticated and empowered corporate data base. The sample companies have been selected on the basis of size of the company. Several variables can be used as the measure the firm's size. Some of them are net profit, total assets, gross profit, total share capital and net sales. Each variable cannot represent the exact firm's size in isolation to other variables. The enlistment of Indian economy cannot be done with the assessment of cement industry based on its financial performances. A study of financial performance analysis is very much essential to the present globalized economic environment. Appropriate analysis of financial performance helps the firms to increase their earning capacity and changes the retained earning process by modifying various revenue ratios. Good quality control and stable performance are considered to be the vital factors for the better functioning of the industries. But these factors are not the any yardstick in determining the success of the industries. Only, when the management of these firms and their success will stride to the highest level of targeted success in short period. Under this circumstance the present management policies are all reviewed to strengthen country's economic development by way of more productions and increasing the usage of cement products.

Keywords: Cement Industry, Financial Performance, Tamilnadu, Growth.

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Introduction

The Indian cement industry plays a key role in the national economy generating substantial revenue for state and central government through excise and sales taxes. Cement is an article of basic importance in all development activities. As one of the major industries, cement industry contributes substantially to India's industrial and economic development. To every development activity, from the construction of a small factory to the structuring of multi-purpose projects cement is an important ingredient. It is therefore ranked rightly as a basic industry. The performance of a company can be analyzed in many ways. It can be judged in respect to market place, technology adoption, competitiveness, environmental protection and strategic positioning. Financial performance is the operating efficiency of a company in terms of the financial parameter. The financial efficiency of a corporation can be measured in terms of solvency, stability, liquidity,

capitalization, turnover ability, coverage ability, profitability.

Statement of the problem

The cement industry is selected for research due to several important reasons. Cement is a basic core product, essential for building our nation and its growth is intrinsically linked with the overall growth of the economy and more importantly with the growth of the infrastructure sector. The lack of adequate roads, port, power and other infrastructure could prove to be a big hindrance to the rapid growth of the country.

Objectives of the study

1. To present a brief account on origin and history of cement industry in India.
2. To evaluate the financial performance of the select cement companies through financial ratios.
3. To examine the relationship between liquidity and profitability of the select cement companies.

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Sources of Data

A scientific approach to the research methodology is very much essential to evaluate the research problem systematically. The present study is fully focused on the secondary data which are collected from the different sources. A meticulous effort has been to collect the required and relevant data. Prowess database of the Centre for Monitoring Indian Economy (CMIE) is the most reliable authenticated and

empowered corporate data base.

Sampling Design

The sample companies have been selected on the basis of size of the company. Several variables can be used as the measure the firm's size. Some of them are net profit, total assets, gross profit, total share capital and net sales. Each variable cannot represent the exact firm's size in isolation to other variables.

List of Sample Companies

S.No	Name of the company
1	KCP Cements Limited (KCP)
2	Madras Cements Limited (MCL)
3	Chettinad Cement Corporation Limited (CCCL)

Period of study

The present study covers a period of 10 years starting from 2002-03 to 2011-12 in order to evaluate the financial analysis of selected cement companies in Tamilnadu.

Limitations of the Study

The limitations of the present study are as follows:

- (1) Only the selected cement companies in Tamilnadu were taken into the study.
- (2) The study period covers only a period of 10 years from 2002-03 to 2011-12.

Inventory Turnover Ratio

Another variable which can influence the profitability is the inventory turnover ratio. It is the ratio of sales to inventory which indicates the number of times inventory is replaced during the year. A high ratio implies good inventory management. But low inventory will adversely affect the ability of the firm to meet out the customer demand and in turn will affect profitability. On the other hand a very low inventory turnover ratio signifies excessive inventory or over investment in inventory and high carrying cost. The sign of inventory co-efficient is ambiguous.

Operating Expenses to Sales Ratio

Apart from the above discussed factors, operating expenses ratio is included as an explanatory variable in this study. A low operating ratio is by and large a test of operational efficiency. The implication of low operating expenses ratio is that relatively a high percentage share of sales is available for meeting

financial liabilities like interest, taxes and dividends. Therefore a negative relationship is expected with operating expenses and profitability.

Financial Performance of Cements Limited

Current Ratio or Working Capital Ratio

Analysis of Short-Term Liquidity

Analysis of short term liquidity position can be made by the computation of certain ratios which are to comment upon the short term paying capacity of a concern or the firm's ability to meet its current obligations. Short -term liquidity position of the company is analyzed with the help of the following ratios:

Current Ratio

The management of working capital involves decisions the amount and composition of current assets and how they are financed. Such decisions involve a trade off between solvency and profitability. In inter-firm comparison, the firm with higher current ratio has better liquidity. A high ratio of current assets to current liabilities may be indicative of slack management practices, as it may be a signal of poor credit management in terms of overextended account receivables. A low ratio is also not decisions since there will be an inadequate margin of safety.

Current ratio is a test of ability of the firm to meet its short- term commitments in appropriate time. It is the ratio obtained by applying the current assets against the current liabilities. It is also called Working Capital ratio, which is most widely used of all analytical devices based on the balance sheet. In computation of current ratio, the following formula is used:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

(Ratio in Times)

Year / Ratio	KCP	MCL	CCCL
2002-03	1.73	0.55	0.74
2003-04	1.81	0.59	0.57
2004-05	1.77	0.56	0.44
2005-06	1.76	0.53	0.41
2006-07	1.74	0.67	0.47
2007-08	1.71	0.67	0.55
2008-09	1.85	0.65	0.60
2009-10	1.88	0.76	0.84
2010-11	1.28	0.60	0.95
2011-12	0.90	0.47	0.66
Mean	1.64	0.61	0.62
S.D.	0.31	0.08	0.18
C.V.(%)	18.84	13.90	28.31
CAGR(%)	-6.33	-1.56	-1.14

Source : Compiled from annual reports

Similarly the mean value of the current ratio of KCP Cements Limited is 1.64 and co-efficient of variation is 18.84 per cent. It is observed from the co-efficient of variation, the variation of current ratio was lesser during the study period except during the year 2010-11 and 2011-12. In these years, current ratio indicates that the firm's liquidity has the ability to pay its current obligations in time. In the rest of the years, the ratios were relatively low and the liquidity position of the firm was not so good. It indicates the performance of the growth was lower during the study period.

On the other hand the mean value of the current ratio of Madras Cements Limited is 0.61 and co-efficient of variation is 13.90 per cent. By observing the co-efficient of variation, the variation of current ratio is lesser during the study period. From the year 2006-07 to

2010-11 the current ratio is an indication that the firm was liquid and has the ability to pay its current obligations in time. Then the rest of the years are relatively low and the liquidity position of the firm is not so good.

In case of Chettinad Cement Corporation Limited the mean value of the current ratio was 0.62 and co-efficient of variation was 28.31 per cent. It could be observed from the co-efficient of variation, the variation of current ratio was lesser during the study period except during the year 2002-03, 2008-09, 2009-10, 2010-11 and 2011-12. In these years, current ratio indicates that the firm was liquid and has the ability to pay its current obligations in time. In the rest of the years, the ratios were relatively low and the liquidity position of the firm was not so good. It indicates the performance of the

growth is lower during the study period.

Liquid Ratio or Quick Ratio

Quick ratio establishes a relationship between liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably

soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid. It is also known as “Acid-Test Ratio”. Liquid ratio may be expressed as:

$$\text{Liquid Ratio} = \frac{\text{Liquid or Quick Assets}}{\text{Liquid or Current Liabilities}}$$

Liquid or quick assets are current assets minus inventories and prepaid expenses. Inventories are considered to be less liquid because normally it requires some time for realizing into cash and their value also has a tendency to fluctuate. In the same manner, liquid

liabilities are current liabilities minus bank over draft. Rule of thumb for liquid ratio is ‘one to one’ (1:1). It is considered to be in a fairly good current financial position. In other words quick assets should not be less than quick liabilities.

Year / Ratio	KCP	MCL	CCCL
2002-03	0.27	0.78	0.25
2003-04	0.29	1.37	0.31
2004-05	0.29	0.90	0.24
2005-06	0.30	0.63	0.32
2006-07	0.52	0.34	0.26
2007-08	0.89	0.25	0.11
2008-09	0.92	0.27	0.19
2009-10	0.74	0.38	0.35
2010-11	0.78	0.36	0.56
2011-12	0.59	0.39	0.45
Mean	0.56	0.57	0.30
S.D.	0.26	0.36	0.13
C.V.(%)	46.93	63.16	42.30
CAGR(%)	8.13	-6.70	6.05

In case of KCP Cements Limited, the mean value of the quick ratio was 0.56 and co-efficient of variation is 46.93 per cent. The co-efficient of variation, the variation of quick ratio is lesser in the years from 2002-03 and 2003-04 enabling in the years 2007-08, 2008-09 2009-10, 2010-11. In these years, quick ratio is an indication that the firm was liquid and has the ability to meet its current liability in time. On the other hand, the rest of the years show low quick ratio represent that the firms liquidity position is much lower.

The mean value of the quick ratio of Madras Cements Limited is 0.57 and co-efficient of variation is 63.16 per cent. By observing the co-efficient of variation, the variation of quick ratio is lesser during the study period except in the year 2002-03, 2003-04, 2004-05 and 2005-06. In these years, quick ratio was an indication that the firm is liquid and has the ability to meet its current liability in time. On the other hand, the rest of the years show low quick ratio represent that the firms

liquidity position is much lower.

The mean value of the quick ratio of Chettinad Cement Corporation Limited is 0.49 and co-efficient of variation is 66.60 per cent. By observing the co-efficient of variation, the variation of quick ratio is lesser during the study period except in the year 2008-09, 2009-10, 2010-11 and 2011-12. In these years, quick ratio was an indication that the firm is liquid and has the ability to meet its current liability in time. On the other hand, the rest of the years show low quick ratio represent that the firms liquidity position is much lower.

Cash to Current Liability Ratio

Since cash is the most liquid asset, a financial analyst may examine cash ratio and its equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash; there fore, they may be included in the computation of cash ratio:

$$\text{Cash to Current Liability Ratio} = \frac{\text{Cash} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

The mean value of this ratio of Associated Cement Companies Limited was 0.32 and co-efficient of variation was 189.70 per cent. During the period 2009-10 show higher ratio than the mean value and it indicates the sufficient position of cash. In the year 2004-05 ratio is very low indicating deterioration in actual liquidity position. The co-efficient of variation indicates slight deviation in the study period.

During the period 2009-10 cash to current liabilities or KCP Cements Limited recorded a higher ratio than the mean value and it indicates the sufficient position of cash. The mean value of this ratio is 0.48 and co-efficient of variation is 94.10 per cent. In the year 2003-04 ratio is very low indicating deterioration in actual liquidity position. The co-efficient of variation indicates slight deviation in the study period

Year / Ratio	KCP	MCL	CCCL
2002-03	0.11	0.06	0.03
2003-04	0.02	0.06	0.04
2004-05	0.05	0.11	0.04
2005-06	0.11	0.09	0.04
2006-07	0.36	0.05	0.03
2007-08	0.87	0.04	0.10
2008-09	1.06	0.11	0.01
2009-10	1.13	0.05	0.41
2010-11	0.88	0.23	1.83
2011-12	0.20	0.01	0.02
Mean	0.51	0.09	0.28
S.D.	0.47	0.06	0.59
C.V.(%)	91.64	66.42	211.30
CAGR(%)	6.16	-16.4	-3.97

In the case of Chettinad Cements Corporation Limited the mean value of this ratio is 0.26 and co-efficient of variation is 221.63 per cent. During the period 2010-11, it shows higher ratio than the mean value and it indicates the sufficient position of cash. In the year 2011-12 ratio was very low indicating deterioration in actual liquidity position. The co-efficient of variation indicates slight deviation in the study period.

In India Cements Limited, the mean value of this ratio is 0.10 and co-efficient of variation is 84.38 per cent. During the period 2010-11, it show higher ratio than the mean value and it indicates the sufficient position of cash. In the year 2007-08 ratio was very low indicating deterioration in actual liquidity position. The co-efficient of variation indicates slight deviation in the study period.

The mean value of this ratio of Ramco Cements Limited was 0.68 and co-efficient of variation was 75.82 per cent. During the period 2006-07, it shows higher ratio than the mean value and it indicates the sufficient position of cash. In the year 2002-03 ratio was very low indicating deterioration in actual liquidity position. The co-efficient of variation indicates slight deviation in the study period.

Suggestions

KCP Cements Limited performance is well in its current ratio, among the nine selected cement industries. So necessary steps should be taken to improve the current ratio by other companies. The proprietary ratio of Madras Cements Limited is very weak when compared with others. The government should contribute

additional capital for expansion and modernization. Madras Cements Limited should adopt the appropriate policy to improve the proprietary ratio.

Conclusion

The enlistment of Indian economy cannot be done with the assessment of cement industry based on its financial performances. A study of financial performance analysis is very much essential to the present globalized economic environment. Appropriate analysis of financial performance helps the firms to increase their earning capacity and changes the retained earning process by modifying various revenue ratios. Good quality control and stable performance are considered to be the vital factors for the better functioning of the industries. But these factors are not the any yardstick in determining the success of the industries. Only, when the management of these firms and their success will stride to the highest level of targeted success in short period. Under this circumstance the present management policies are all reviewed to strengthen country's economic development by way of more productions and increasing the usage of cement products.

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