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A Study on Financial Performance (Profitability Analysis) of Selected Cement Industries in Tamil Nadu

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Abstract

India's manufacturing sector used to account for only about 10 per cent of its GDP in the early 1950's, but currently it accounts for about 19 per cent. This sector had been highly protected from both internal and external competitions over a long period of time and until the early 1990's when the country embarrassed the new economic policy since 1991's the manufacturing sector in the country has been undergoing a wave of liberalization, the main objective of it, is to reduce both external and internal barriers to entry. Such a reduction, it was argued to enhance the competitiveness of the sector and thereby making it more efficient. Since 1992-93, the manufacturing sector has grown at the rate of 5 to 6.98 per cent per annum. Against this background, it is very important to analyses the performance of manufacturing sector. 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. 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, Profitability Analysis.

Introduction

The prosperity of a country, the Gross Domestic Product (GDP), the standard of living and the per capita income of the people depend on performance of economy to a larger extend. Major portion of any country's Gross Domestic Product is contributed by its corporate sector. India is a country of above 1000 million people with 3.28 square million kilometers of land which is endowed with enormous amount of natural resources. The success of India depends on the exploitation of all these resources for its development. Corporate sectors provide the medium through which these resources could be very effectively exploited. Cement is an article of basic importance in all development activities. The success of the country and its economy to a larger extend depend on the performance of its corporation. Endowing the resources to the table performers, India could prosper well. So it is imperative to evaluate the performance of the corporate sector, and the help them to find out the right areas to invest.

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Statement of the problem

India's manufacturing sector used to account for only about 10 per cent of its GDP in the early 1950's, but currently it accounts for about 19 per cent. This sector had been highly protected from both internal and external competitions over a long period of time and until the early 1990's when the country embarrassed the new economic policy since 1991's the manufacturing sector in the country has been undergoing a wave of liberalization, the main objective of it, is to reduce both external and internal barriers to entry. Such a reduction, it was argued to enhance the competitiveness of the sector and thereby making it more efficient. Since 1992-93, the manufacturing sector has grown at the rate of 5 to 6.98 per cent per annum. Against this background, it is very important to analyses the performance of manufacturing sector.

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.

Sources of Data

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.

List of Sample companies

S.No	Name of the company
1	Associated Cement Companies Limited (ACC)
2	KCP Cements Limited (KCP)
3	Madras Cements Limited (MCL)

Period of study

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

Limitations of the Study

(1) The study period covers only a period of 10 years from 2002-03 to 2011-12.
(2) The reliability and correctness of the study depends on the information provided in the annual reports of the selected companies.

Financial Performance Analysis

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm like owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst.Financial ratios are classified into so many ways. But for the present study it is being divided into four major categories which are as follows

Profitability Ratios Relating to Sales

These ratios are based on the promise that a firm should earn sufficient profit on each rupee of sales. If adequate profits are not earned on sales, there will be difficulty in meeting the operating expenses and no returns will be available to the owners.

The following ratios are computed to analyses the profitability in relation to sales.

Profit Margin Ratios

The profit margin measures the relationship between profit and sales. As the profit may be gross or net, there are two types of profit margins.

Gross Profit Ratio (GP Ratio)

This ratio is important to judge the profitability of a business enterprise. This ratio shows profit margin on sales in which management and share holders are very much interested. The ratio of gross profit margin expresses relationship between gross profit and net sales in terms of percentage, representing the percentage of gross profits earned on sales. It is calculated as follows:

$$Gross\ Profit\ Ratio = \frac{Gross\ Profit}{Net\ Sales}\ x\ 100$$

The basic components for the computation of the ratio are gross profit and net sales. 'Net sales' means total sales minus sales return. Gross profit would be the difference between net sales and cost of goods sold. Cost of goods sold in the case of a trading concern would be equal to opening stock plus purchases, minus closing stock plus all direct expenses relating to purchases (i.e., all expenses charged to trading account).

companies	ACC	KCP	MCL
2002-03	0.12	0.08	0.21
2003-04	0.14	0.10	0.20
2004-05	0.16	0.15	0.18
2005-06	0.25	0.17	0.18
2006-07	0.30	0.28	0.31
2007-08	0.29	0.28	0.33
2008-09	0.25	0.28	0.28
2009-10	0.31	0.27	0.28
2010-11	0.22	0.23	0.22
2011-12	0.20	0.22	0.26
Mean	**0.23**	**0.21**	**0.25**
S.D.	**0.07**	**0.08**	**0.05**
C.V.(%)	**30.13**	**37.06**	**21.95**
CAGR(%)	**5.24**	**10.65**	**2.16**

Source : Compiled from annual reports

The mean value of gross profit ratio of Associated Cement Companies Limited was 0.23 and co-efficient of variation was 30.13 per cent. It is observed from the co-efficient of variation, the variation in the ratio is very wide and in sometimes it is fluctuated. In the year 2002-03 the gross profit ratio of Associated Cement Companies Limited recorded a very low ratio at 0.12. It reached 0.31 which was higher in the year 2009-10. The reason for the fluctuation is due to expansion programme.

The mean value of gross profit by the KCP Cements Limited is 0.21 and co-efficient of variation is 37.06 per cent. It is observed that the results do not show much variation. In the year 2006-07, 2007-08 and 2008-09 it reached 0.28. The reason for this increase is high capacity utilization and abnormal increase in selling price due to heavy demand in the market. The mean value of gross profit ratio of the Madras Cements Limited was 0.25 and co-efficient of variation was 21.95 per cent. By observing the co-efficient of variation the gross profit ratio does not show much variation. The reason is due to abnormal increase in selling price of the cement.

Net Profit Ratio (Np Ratio)

This ratio indicates the relationship between net profit and net sales. This is the ratio of net income or profit after taxes to net sales in percentage. NP ratio is used as a measure of overall profitability and is useful to the owners. The NP ratio is calculated as follows:

$$Net\ Profit\ Ratio = \frac{Net\ Profit}{Sales}\ x\ 100$$

Companies	ACC	KCP	MCL
2002-03	0.17	0.07	0.16
2003-04	0.20	0.09	0.19
2004-05	0.24	0.17	0.16
2005-06	0.28	0.20	0.22
2006-07	0.48	0.39	0.42
2007-08	0.52	0.46	0.29
2008-09	0.38	0.37	0.21
2009-10	0.41	0.22	0.21
2010-11	0.27	0.12	0.14
2011-12	0.27	0.21	0.19
Mean	**0.32**	**0.23**	**0.22**
S.D.	**0.12**	**0.13**	**0.08**
C.V.(%)	**36.91**	**58.04**	**37.43**
CAGR(%)	**4.73**	**11.61**	**1.73**

Source : Compiled from annual reports

In the year 2002-03 the net profit ratio of India Cements Limited was 0.02 which was low in the whole study period. The reason for the reduction was due to decrease in sales volume and increase in over heads. The mean value was 0.11 and co-efficient of variation was 56.75 per cent. By observing the ratio, it was very high in the year 2007-08 and it was lower in the year 2002-03.

By observing the net profit ratio of the Ramco Cements Limited it showed higher ratio in the year 2009-10 and lower in the year 2002-03. The reason for the reduction was due to decrease in sales. The mean value of the net profit ratio was 0.30 and co-efficient of variation was 29.94 per cent.

The net profit ratio of Dalmia Cements Limited was recorded minimum value in the year 2010-11 and 2011-12. The minimum ratio was due to expansion programme in the particular year in the industry. In the year 2006-08 it showed the maximum as 0.23 because of heavy turnover. The mean value was 0.14 and co-efficient of variation was 40.00 per cent. It is observed that the net profit ratio does not show much fluctuation during the study period.

Return on Total Resources or Total Assets (Rota) Ratio

The profitability ratio is calculated in terms of the relationship between net profit and assets. This ratio is also known as “profit-to- assets Ratio”. This ratio measures the profitability of the total funds invested in a firm but does not reflect on the profitability of the different sources of total funds. It is calculated by using the following formula:

$$\text{Return on Total Assets (ROTA) ratio} = \frac{\text{Net Profit after tax and interest}}{\text{Total Assets}} \times 100$$

Companies	ACC	KCP	MCL
2002-03	0.07	0.03	0.05
2003-04	0.16	0.01	0.12
2004-05	0.26	0.10	0.18
2005-06	0.22	0.17	0.22
2006-07	0.42	0.38	0.58
2007-08	0.35	0.40	0.50
2008-09	0.27	0.31	0.33
2009-10	0.29	0.23	0.25
2010-11	0.18	0.13	0.13
2011-12	0.19	0.18	0.20
Mean	**0.24**	**0.19**	**0.26**
S.D.	**0.10**	**0.14**	**0.17**
C.V.(%)	**41.25**	**70.32**	**66.57**
CAGR(%)	**10.50**	**19.62**	**14.87**

While analyzing the return on total assets ratio in Associated Cement Companies Limited, the mean value of the return on total assets was 0.24 and the co-efficient of variation was 42.15 per cent. During the study period, in the year 2006-07 the ratio showed very higher than the other period, due to increase in turnover that lead to more profit. The high degree of co-efficient of variation indicated wider variation in its value during the study period.

During the study period, the ratio of KCP Cements Limited showed minimum in the year 2003-04 due to normal profit of the company. The mean value of the return on total assets was 0.19 and the co-efficient of variation was 70.32 per cent. In the year 2007-08 the ratio showed very higher than the other period, due to increase in turnover that leads to more profit. The high degree of co-efficient of variation indicated wider variation in its value during the study period.

In the year 2006-07 the ratio of the Madras Cements Limited showed very higher than the other period, due to increase in turnover that lead to more profit. The high degree of co-efficient of variation indicated wider variation in its value during the study period. The mean value of the return on total assets was 0.26 and the co-efficient of variation is 66.57 per cent.

Summary of Suggestions and Conclusion

Finance to business is what blood is to human body. The various organs of our body require a smooth flow of blood for their effective functioning; similarly the various parts of an organization also require smooth flow of funds for their effective business operations. Hence, finance is the life blood of modern business. Finance can be raised through so many sources and can be put to better use. If the funds are not managed properly and inefficiently, many cement industries will face the threat for their survival. In this context, the present study was undertaken to analyses the financial performance of selected cement industries to arrive at the findings and to offer some valuable suggestions for the betterment of its financial status.

- The inventory turnover ratio has highly affected the profitability of Associated Cement Companies Limited. The co-efficient of determination is 82 per cent which is highly not significant.

- The profitability of KCP Cements Limited is affected by the operating expense to sales ratio. Further, 72 per cent of the co-efficient of determinants recorded in the study.
- In the case of the Madras Cements Limited, its profitability is affected by the growth rate of sale and current assets during the study period. The co-efficient of variation is quite high i.e., 72 per cent which is significant.

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.

While analyzing the quick ratio, the performance of the Associated Cement Companies Limited is not well. The company should increase the liquidity position to improve liquidity.

Conclusion

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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