

A Study on Financial Performance of Select Cement Companies in India

R. Ramachandran¹, Dr. G. Kumar²

¹Ph.D. Research Scholar (P/T), PG & Research Department of Commerce, Annamalai University, India

²Assistant Professor, PG Department of Commerce, (Deputation from Annamalai University), Thiru. A. Govindasamy Govt. Arts college, India

Cement industry in India is one of the booming sectors of economic development in the country. The industry is in the process of driving sustained growth, driven primarily by the construction industry and major infrastructure projects announced by the government from time to time. The objective of the study is working capital management of selected cement companies in India and the researcher has taken six cement companies as sample of the study (3 mid-cap and 3 small-cap), namely, Ramco Cements, JK Lakshmi Cements, Star Cement, India Cements, Orient Cement and Heidelberg Cements were selected and using multistage sampling method. The study analysis to highlighted that Indian cement has the lowest liquidity ratio and Heidelberg cement has the highest liquidity ratio.

Keywords: Cement Industry, Financial Performance and Ratio Analysis.

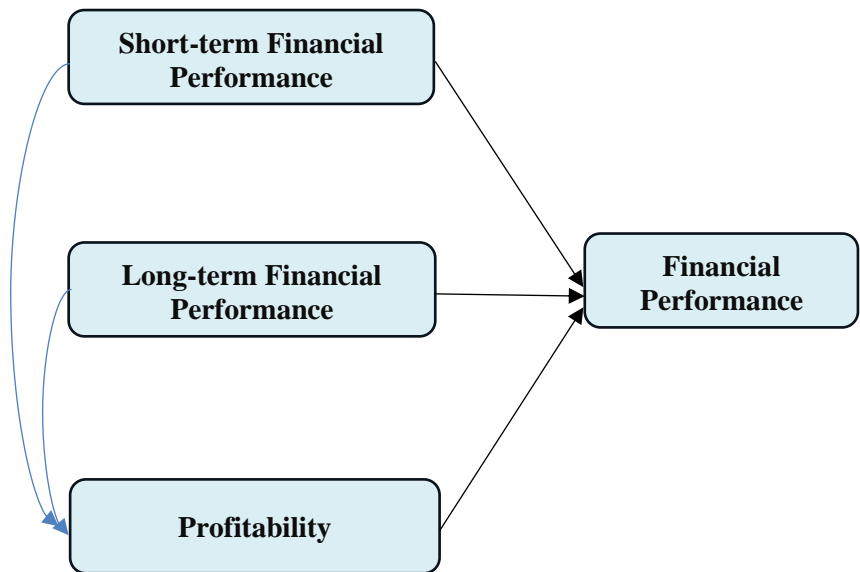
1. Introduction

"The Indian economy is one of the fastest-growing economies in the world, with many industries contributing to the Gross Domestic Product (GDP) of India. The manufacturing sector is a major contributor to the country's GDP and provides significant employment opportunities. Industries such as automobile, infrastructure, metal, and cement play a crucial role in the manufacturing sector. The cement industry, in particular, is essential for the country's infrastructure development and is one of the most important building materials for construction. India is the second-largest cement manufacturer in the world, and this industry provides direct and indirect employment to a considerable portion of the population. With various government projects focusing on infrastructure development, such as the development of smart cities, the cement industry has a promising future. Its development will contribute to the nation's overall progress, while any setbacks in the industry could have adverse effects on the economy and employment. Finance, marketing, production, and human resource management are crucial areas to study in any industry, but finance is the backbone of all

activities. Efficient financial management is essential for a company's success, while poor financial management can lead to bankruptcy, even if other aspects are managed efficiently. Financial management typically focuses on short-term fund management, long-term fund management, and company profitability. In this context, the researcher has chosen to study the financial performance of selected cement companies in India. The following sections provide the theoretical background of the cement industry in India and its significance."

2. Conceptual Framework

The study has been undertaken to analyse the financial performance of selected cement manufacturing companies in India. The financial performance of the sample companies has been studied in three brad dimensions namely, Short Term Financial Performance, Long Term Financial Performance and Profitability Position and the researcher also studied the relationship between short term financial performance and long term financial performance of the selected cement companies on profitability of such companies. This conceptual framework has been presented in pictorial form below.



3. Review of Literature

The researcher collected a total of 75 earlier studies related to the current research topic and the same are reviewed and presented in chapter II.

Statement of the Problem

India is the second largest cement manufacturer in the world, next to China. The cement industry is one of the largest industries in India, providing employment opportunities to a considerable number of people both directly and indirectly. It also generates foreign exchange through the export of cement to other countries. The industry plays a crucial role in the

development of infrastructure, which is essential for the economic growth of a country. Most of the large cement manufacturers are joint-stock companies, with investments from industrialists, the public, and the government. The successful operation of a business increases the company's profits, return on shareholders' investment, and ultimately enhances shareholders' wealth. Conversely, a company's poor performance can lead to lower returns on investment. The growth of a company depends on various operational performances of the management. Financial management is a crucial component of a company's management and forms the backbone of its business activities. Efficient financial management is essential for the success of any business activity.

In financial management, the analysis of short-term funds management is crucial. Working capital is an important aspect of any business organization, and maintaining liquidity is vital. A lack of liquidity can lead to bankruptcy. Therefore, this study includes an analysis of the working capital management of selected cement companies. Long-term solvency is also crucial for any business organization. The study includes an examination of the capital structure, efficiency of financial management in terms of shareholders' funds, fixed assets, and other aspects. All business activities are aimed at generating profits. Therefore, analyzing profitability can exhibit the overall performance of a company. Thus, this study also analyzes the profitability of selected cement companies. Effective working capital management is essential for increasing a company's earnings, as poor management of working capital can negatively impact earnings. Consequently, this study tests the relationship between working capital management and the profitability of selected cement companies in India.

Objectives of the Study

The study has been undertaken with the following specific objectives.

1. To study the working capital management of selected cement companies in India.
2. To analyse the long-term solvency of selected cement companies in India.

Scope of the Study

The present study has been made in order to analyse financial performance of selected cement companies in India. The study selected only six cement companies in India. These companies were selected on the basis of the companies listed in the small caps and mid caps in the stock exchange of BSE and also considered data availability for the study period among top cement manufacturers in India listed in small and mid cap. The study used possible ratios as explained earlier, some ratios were not considered for the analysis due to inadequacy of data availed in financial reports of the respective companies. The study also restricted to financial performance analysis in terms of working capital management, long term solvency and profitability of the selected companies and other aspects of financial management are not considered for the study and they are considered out of scope.

Sample of the Study

Infrastructure development is essential for the development of an economy. Without adequate infrastructure, an economy cannot grow. Cement is the primary raw material for infrastructure development. Hence the researcher has chosen cement industry for the study. Indian cement industry is the second largest in the world. This industry provides raw material for construction

industry, which is highly helping for infrastructure development of the nation. Cement industry is also provides considerable number of employment both directly and indirectly to people. In BSE, a total of 43 cement companies are listed. Among them first five companies (Ultratech Cement, ACC, Ambuja Cements, Shree Cements and JK Cements) are coming under large cap category. As far as the researcher reviewed, majority of the researchers had taken these top five companies all together or few of them for the study to analyse their financial performance. Other than these five companies, other 38 cement companies are categorized under mid cap and small cap. Very few studies were done on these companies to analyse their financial performance. The researcher selected five companies under the category of mid cap and small cap cement companies listed in BSE using Multistage Random Sampling Method. The top nine companies under these categories are presented below. A total of three cement companies are listed under the category of mid-cap (Ramco Cements, JK Lakshmi Cements and Star Cement), these companies are selected as sample under mid-cap category and the researcher selected the same number of companies (three) under small cap category (India Cements, Orient Cement and Heidelberg Cements), the researcher wanted to top three small cap companies in terms of turnover, but secondary data for Nuvoco Vistas company was available only from the financial year 2016-17, since eventhough the company was doing cement business, it was incorporated in the year 2016 in the name of Nuvoco Vistas Corp. Ltd. hence the company is not selected. Among the top ten companies, all the companies are doing exclusively cement manufacturing only, but Jaiprakash Association is doing not only Cement manufacturing and also doing other type of business. Hence, it is not suitable for the study. Hence it is rejected. Finally the researcher has taken six cement companies as sample of the study (3 mid-cap and 3 small-cap), namely, Ramco Cements, JK Lakshmi Cements, Star Cement, India Cements, Orient Cement and Heidelberg Cements.

Table: Sample Selection

SN	Company Name	Turnover (₹ crore)	Category	Business	Data Availability	Selection
1	Nuvoco Vistas	8,581.52	Small cap	Cement	From 2016-17	Not Selected
2	Ramco Cements	8,135.27	Mid cap	Cement	Last 10 years	Selected
3	JK Lakshmi Cem	6,071.05	Mid cap	Cement	Last 10 years	Selected
4	India Cements	5,380.81	Small cap	Cement	Last 10 years	Selected
5	Orient Cement	2,937.55	Small cap	Cement	Last 10 years	Selected
6	Star Cement	2,704.53	Mid cap	Cement	Last 10 years	Selected
7	Heidelberg Cem	2,238.10	Small cap	Cement	Last 10 years	Selected
8	HIL	2,155.20	Small cap	Cement	Last 10 years	Not Selected
9	Sagar Cement	1,910.40	Small cap	Cement	Last 10 years	Not Selected

Source: www.bseindia.com

Hypotheses Framed

The researcher has framed the following hypotheses for the study and they were tested using correlation analysis.

1. There is no significant relationship between Current Ratio and profitability of selected cement companies in India.

4. Data Collection and Analysis

The present study is purely based on secondary data for analysis. As it is a financial statement analysis, the study required various accounting data for analysis. Required accounting data were collected from financial reports such as profit and loss account and balance sheet of the concerned companies for the study period. These financial reports were collected from annual reports of the companies. Annual reports of the selected companies were collected from official websites of the concerned companies and internet sources such as reportjunctions and data base called 'prowess' provided by Centre for Monitoring Indian Economy (CMIE). The study also collected other data related to net sales of top cement companies, installed capacity of cement in India, cement production in India and so on, these data were collected from various reports of Cement Manufacturers Association (CMA) and other websites of government and non-government.

Period of the Study

The present study has been undertaken for a period of ten years spanning from 2013-14 to 2022-23.

Tools of Analysis

The study is empirical in nature. The study purely based on secondary data. Data were collected, they were arranged for analysis. The study applied ratio analysis as financial tool. The researcher has used ratios related to liquidity, solvency, profitability and other ratios for analysis. These ratios are described in the successive chapters. The study also used mean, standard deviation, co-efficient of variation and compounded annual growth rate (CAGR) as statistical tools. The researcher has also used correlation analysis in order to test hypotheses between variables of working capital and profitability. The study has used Y-score model developed by Dr.S.S.Srivastava and Dr.R.A.Yadav for the analysis of working capital management of the selected companies. The researcher also applied Z-score model propounded by Altman for analyzing overall financial performance of the sample companies.

5. Limitations of the Study

The researcher experienced the following limitations while making the present study.

1. The study was undertaken with secondary data, these data were collected from annual reports of respective companies. Generally secondary data has its own limitations; it applies for the study also.
2. When debtors' turnover ratio and average collection periods were calculated, credit sales were required to calculate such ratio. Due to non-availability of credit sales, total sales were considered as credit sales.