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## A study on financial performance of select cement industries in India

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### Abstract

In the financial management process, the initial stage in the process is a financial or review of the firm. Financial analysis is essentially the first step towards gaining a sound understanding of a business. Financial analysis is the evaluation of a firm's past; present anticipated future financial performance and firm condition. Its objectives are to identify the firm's financial strengths and weakness and to provide the essential foundation for financial decision making and planning. Business finance is that business activity, which is concerned with the acquisition and conservation of capital funds to meet financial needs and overall objectives of a business enterprise. Financial functions of a business may be stated as the procurements of funds and their effective utilization

**Keywords:** Financial analysis, Motaal's Comprehensive Test, Cement industries performance

### Introduction

#### Introduction and Design of the Study

Finance is regarded as the lifeblood of every business concern. This is because in the modern money-align economy, finance is one of the basic foundations of all kinds of economic activities. It is the master key which provides access to all the sources for being employed in manufacturing and trading activities. It has rightly been said that business needs money to make more money. Hence, efficient management of business enterprise is closely linked with efficient management of its finance.

In general, finance as the provision of money at the time it is needed. However, as a management function, it has a special meaning. Finance function may be defined as the obtain of funds and their effective utilization.

#### Definition for Finance

According to Paul. G. Hastings <sup>[1]</sup>, "Finance is the management of the monetary affairs of a company". It includes determining what has to be paid for raising the money on the best terms available, and devoting available funds to the best uses."

#### Financial Analysis

In the financial management process, the initial stage in the process is a financial or review of the Concern. Financial analysis is the evaluation of a firm's past; present anticipated future financial Strength and firm condition. Its objectives are to identify the firm's financial strengths and weakness and to provide the essential foundation for financial decision making and planning process.

#### Statement of the Problem

The study is conducted to analyse the present financial performance and Liquidity position of the organizations. The present situation of the organization was taken for the study is through analyzing the five years annual report which clearly depicts the balance sheet in which the source of funds, application of funds and current liabilities & provisions of the company.

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<sup>1</sup> Introduction to business / Paul G. Hastings. Author. Hastings, Paul G. (Paul Guiler), 1914-. Edition. 2nd ed. Published.

The tool used for the study is to understand the actual position and a trend projection was given for the next five years based on the present situation. This will be useful for the companies to ascertain the actual situation and the comparative study for the companies will also help to assess themselves their stand in the cement market and thus this concludes the statement of the problem.

### Scope of the Study

The study aims to measure the liquidity and growth of cement industries and identify the drawbacks which are of the indicators of the low performance of the industry. The result of the study may help the management of the industries in taking suitable decisions for better performance in future.

The optimum utilization of resources, efficient management of activities, control on the costs and expenses, and enhancement of productivity is essential for the survival of the organization. Based on the analysis, this study will provide valuable suggestion which will enable the companies to overcome its weakness and enhance its financial performance.

### 1.5 Objectives of the Study

- To assess the liquidity position of the companies.
- To analyze and compare the performances of the cement industries during the period of 5 years (2010-2014).

### Research Methodology

#### Meaning of Research

Research in common parlance to a search for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic.

The quality of the project work depends on the methodology adopted for the study. Methodology, in turn, depends on the nature of the project work. The use of proper methodology is an essential part of any research. In order to conduct the study scientifically, suitable methods & measures are to be followed.

#### Research Design

“Research design is the arrangement of activities for the collection and analysis of the data in a manner that aims to combine relevance to the purpose with economy in procedure. The study carried out here is an Analytical Research

#### Collection of Data

The secondary data collection was adopted in this study. There are 46 cement companies in India out of which five companies were selected.

#### The companies are

1. Ultratech India Cements
2. Madras Cements
3. JK Cements
4. Chettinad Cements

The motive for selecting the companies is based on the leading players in the market. The companies are mostly recommended by the dealers for their economic price and the quality of the product they provide to the customers. Hence, these four cement companies were selected for the

study and their financial performance was analysed. The data was collected from Money control.com. The companies are listed as public limited companies.

### Data Collection Method

Data has been collected from secondary sources. Top four players in cement sector in India are selected for the study.

### Secondary Data

Secondary data through company annual reports, company manuals and other relevant documents. On websites, textbooks & journals.

### Period of Study

The period of study covers 5 years (2009-10 to 2013-14).

### Statistical Tools for Analysis

#### Statistical tools are used to analyze:

#### Motaaal’s Comprehensive Test

#### Motaaal’s Comprehensive Test

In order to evaluate the overall liquidity position of all the four cement industries during the study period, “Motaaal’s Comprehensive Test is applied.

In this test, a method of ranking has been applied to reach at the more comprehensive assessment of liquidity in which three different ratios, viz., Inventory to Current Asset, Liquidity to Current Asset and Loans and Advances to Current Asset has been computed and combined in points score.

A high value of Liquid Asset to Current Asset shows greater liquidity and according the ranking has been done in the order. On the other hand, a low Efficiency to Liquidity (Inventory to Current Asset) indicates more favourable liquidity position to current assets ratio. More the liquidity towards loans and advances to current assets reveals more favourable liquidity position. Therefore, ranking has been done accordingly which shows lower the total or individual ranks, the more favourable is the liquidity position of the organizations which is self-explanatory in the tables.

### Limitations of the Study

- This study is mainly based on secondary data.
- It is only for a period of 5 years.
- It is confined only to four five cement companies in the private sector, so it cannot be generalized for other similar or different industry having identical operations.

### Review of Literature

The review of literature helps the researcher to have a firsthand knowledge about the parallel work done by others. This enables to fix the title, objectives and methodology and to have a comprehensive understanding of the proposed study and based on the concepts the following studies are reviewed;

Sherly Roselin (1993) <sup>[1]</sup> study concluded “Financial Performance Appraisal, A Case Study of Associated Cement Companies Limited”. The financial position of the company was satisfactory for the period. She has also suggested that the company may take steps to improve the profit by increasing the capacity utilization, productivity of

<sup>1</sup> Sherly Roselin, “Financial Performance Appraisal, A Case Study of Associated Cement Companies Limited”, Unpublished M.Phil Dissertation, Bharathiar University, Coimbatore-46, 1993.

machinery and manpower, control over the emphasis of input costs by adopting cost-volume profit analysis and budgetary control system.

Mr. Sardeesh Babu. B (1998-2000) <sup>[2]</sup> in her study “A Study on Financial Performance of Fertilizers and Chemicals Travancore Limited”. The cost on various overheads can be brought down by carefully scrutinizing each item and applying cost cutting techniques. The profitability of the company can be improved by reducing the expenses that do not contribute any productive use. The current assets can be managed efficiently by examining the material holding and stock holding procedure and pattern. If the company increase its turnover and reduces its cost, the profit will increase leading to an increases in the growth rate of sales, profit before tax and profit after tax.

Poongodi (2003) <sup>[3]</sup> in her study “A Study on Financial Performance of Cement Industries” in south India with special reference to Tamil Nadu, Karnataka and Andhra Pradesh” focused on ascertaining the profitability and measuring the earning capacity of cement industry. She has suggested that they have to develop their long-term and short-term solvency position and increase in their total sales by adopting modern marketing techniques.

Leela Devi.N (2003) <sup>[4]</sup> in her study entitled “Financial Performance Appraisal of India Cements Limited” was based on secondary data published by the company from the stock exchange official directory. The study reveals their operations are satisfactory; they have suggested to improving latest techniques of inventory control short term efficiency and to operating expenses to earn more profits.

Bavaria, Rasik N. (2004) <sup>[5]</sup> “A Comparative Analysis of Profitability Vis-A-Vis Liquidity Performance in Cement Industry of India”. Telecommunication, petroleum, coal, fertilizers, iron, steel and cement etc. are the key infrastructure sectors of India. Cement industry is also plays a significant role, in the rapid growth and development of a country, because cement is a pre-requisite of all construction activities. Cement is used in housing, dams, bridges, industrial construction, roads, etc. so cement is basic material, which is used in all types of constructions. There are about 125 such companies which have been working in India, researcher has selected 17 Companies as the sample for this study. The Present study is made for eight years from 1995-1996 to 2002-2003. For the purpose of analyses, all the selected companies have been classified into five regions, The Eastern region, The Western region, The Northern region, The Southern region, and Rest of the regions. Allocation of the state in regions has been made according to CMA criteria. Companies have been classified in to various regions according to the location of plant in the state. Those companies plant have been located in the more than one region they have put in rest of region. The main source of data used for the study is secondary, drawn from

the Annual Profit & Loss Accounts and Balance Sheet figures as found in Annual Reports of the selected units. The other Data Source is ProweSS database & Capitalline software from Mumbai and opinions expressed in Commercial Journals, Magazines, News Papers, Accounting Literature, various Journals on Cement viz. Cement Industry Annual Review, World Cement, Cement abstracts etc. have been also used in this study.

### Analysis and Interpretation

Data are actual measurements and observations. Interpretations are an attempt to identify or explain what is measured and observed. An interpretation's validity depends on how well it accommodates the available data. Interpretations may change as the database changes. This interplay between analysis and interpretation is what makes science so successful and progressive.

In this chapter an analytical study was taking 5 years data from 2010-11 to 2013-14. For the purpose of data analysis the researcher collected secondary data from the Cement Industries.

### Motaal's Comprehensive Test

In order to evaluate the overall liquidity position of all the five cement industries during the study period, “Motaal's Comprehensive Test is applied.

In this test, a method of ranking has been applied to reach at the more comprehensive assessment of liquidity in which three different ratios, viz., Inventory to Current Asset, Liquidity to Current Asset and Loans and Advances to Current Asset has been computed and combined in points score.

A high value of Liquid Asset to Current Asset shows greater liquidity and accordingly the ranking has been done in the order. On the other hand, a low Efficiency to Liquidity (Inventory to Current Asset) indicates more favourable liquidity position to current assets ratio. More the liquidity towards loans and advances to current assets reveals more favourable liquidity position. Therefore, ranking has been done accordingly which shows lower the total or individual ranks, the more favourable is the liquidity position of the organizations which is self explanatory in the tables given below.

<sup>2</sup> Sardeesh Babu.B, “Financial Performance of Fertilizers and Chemicals Travancore Limited”, Unpublished M.Phil Dissertation, Bharathiar University, Coimbatore-46, 1998-2000.

<sup>3</sup> Poongodi, “A Study on Financial Performance of Cement Industries with reference to South India”, M.Phil. Dissertation, Bharathiar University, Coimbatore-46, 2003.

<sup>4</sup> Leela Devi, “Financial Performance Appraisal of India Cements Limited”, Unpublished M.Phil Dissertation, Bharathiar University, Coimbatore-46.

<sup>5</sup> Bavaria, Rasik N, “A Comparative Analysis of Profitability Vis-A-Vis Liquidity Performance in Cement Industry of India”, Ph. D Thesis, Saurashtra University, 2004.

**Table 1:** Motaal's Comprehensive Test showing the Overall Liquidity Position of ULTRATECH Cements

| Sl. No. | Year    | Inventories to Current Assets |      | Liquid Assets / Current Assets |      | Loans & Advances to Current Assets |      | Total Score | Ultimate Rank |
|---------|---------|-------------------------------|------|--------------------------------|------|------------------------------------|------|-------------|---------------|
|         |         | %                             | Rank | %                              | Rank | %                                  | Rank |             |               |
| 1       | 2009-10 | 54.9                          | 1    | 120.0                          | 3    | 46.8                               | 1    | 5           | 1             |
| 2       | 2010-11 | 46.7                          | 2    | 117.8                          | 4    | 38.1                               | 3    | 9           | 2             |
| 3       | 2011-12 | 36.2                          | 5    | 124.1                          | 1    | 25.0                               | 5    | 11          | 4             |
| 4       | 2012-13 | 41.4                          | 3    | 116.9                          | 5    | 39.1                               | 2    | 10          | 3             |
| 5       | 2013-14 | 36.7                          | 4    | 120.4                          | 2    | 35.3                               | 4    | 10          | 3             |

**Interpretation**

According to Motaals Comprehensive test, the overall performance of the liquidity position of Ultratech Cements during the year 2009-10 was ranked as 1<sup>st</sup> on the basis of

liquidity followed by the year, second position during 2010-11 whereas third position was 2012-13 and 2013-14 and the fourth rank was achieved during 2011-12.

**Table 2:** Motaal's Comprehensive Test showing the Overall Liquidity Position of MADRAS Cements

| Sl. No. | Years   | Inventories to Current Assets |      | Liquid Assets / Current Assets |      | Loans & Advances to Current Assets |      | Total Score | Ultimate Rank |
|---------|---------|-------------------------------|------|--------------------------------|------|------------------------------------|------|-------------|---------------|
|         |         | %                             | Rank | %                              | Rank | %                                  | Rank |             |               |
| 1       | 2009-10 | 36.3                          | 4    | 124.5                          | 1    | 46.8                               | 1    | 6           | 1             |
| 2       | 2010-11 | 35.7                          | 5    | 121.9                          | 3    | 34.5                               | 5    | 13          | 5             |
| 3       | 2011-12 | 42.9                          | 2    | 120.2                          | 4    | 34.6                               | 4    | 10          | 4             |
| 4       | 2012-13 | 40.8                          | 3    | 122.5                          | 2    | 44.0                               | 2    | 7           | 2             |
| 5       | 2013-14 | 43.1                          | 1    | 116.8                          | 5    | 34.9                               | 3    | 9           | 3             |

**Interpretation**

According to Motaals Comprehensive test, year 2009-10 was ranked as 1<sup>st</sup> on the basis of liquidity followed by the

year, 2013-14 and the third rank was achieved during 2013-14m fourth rank during 2011-12 by Madras Cements. The last rank was achieved during the year 2010-11.

**Table 3:** Motaal's Comprehensive Test showing the Overall Liquidity Position of J.K. Cements

| Sl. No. | Years   | Inventories to Current Assets |      | Liquid Assets / Current Assets |      | Loans & Advances to Current Assets |      | Total Score | Ultimate Rank |
|---------|---------|-------------------------------|------|--------------------------------|------|------------------------------------|------|-------------|---------------|
|         |         | %                             | Rank | %                              | Rank | %                                  | Rank |             |               |
| 1       | 2009-10 | 33.1                          | 3    | 112.7                          | 5    | 27.9                               | 2    | 10          | 4             |
| 2       | 2010-11 | 32.9                          | 4    | 135.5                          | 1    | 36.9                               | 1    | 6           | 1             |
| 3       | 2011-12 | 30.4                          | 5    | 133.0                          | 2    | 27.8                               | 4    | 11          | 5             |
| 4       | 2012-13 | 36.5                          | 2    | 113.9                          | 4    | 27.9                               | 3    | 9           | 2             |
| 5       | 2013-14 | 39.0                          | 1    | 122.4                          | 3    | 26.3                               | 5    | 9           | 3             |

**Interpretation**

According to Motaals Comprehensive test, year 2010-11 was ranked as 1<sup>st</sup> on the basis of liquidity followed by the year 2012-13 ranked second position, 2013-14 achieved

third position while 4<sup>th</sup> position achieved by the year 2009-10 by JK Cements. The last rank was achieved during the year 2011-12.

**Table 1.4:** Motaal's Comprehensive Test showing the Overall Liquidity Position of CHETTINAD Cements

| Sl. No. | Years   | Inventories to Current Assets |      | Liquid Assets / Current Assets |      | Loans & Advances to Current Assets |      | Total Score | Ultimate Rank |
|---------|---------|-------------------------------|------|--------------------------------|------|------------------------------------|------|-------------|---------------|
|         |         | %                             | Rank | %                              | Rank | %                                  | Rank |             |               |
| 1       | 2009-10 | 29.7                          | 5    | 126.1                          | 3    | 14.6                               | 3    | 11          | 4             |
| 2       | 2010-11 | 32.9                          | 4    | 127.0                          | 2    | 48.9                               | 2    | 8           | 2             |
| 3       | 2011-12 | 58.1                          | 3    | 127.2                          | 1    | 50.9                               | 1    | 5           | 1             |
| 4       | 2012-13 | 60.6                          | 1    | 119.3                          | 4    | 12.3                               | 5    | 10          | 3             |
| 5       | 2013-14 | 59.2                          | 2    | 118.1                          | 5    | 14.6                               | 4    | 11          | 4             |

**Interpretation**

According to Motaals Comprehensive test, year 2011-12 was ranked as 1<sup>st</sup> on the basis of liquidity followed by the year, 2010-11 ranked second, the third rank was achieved during 2012-13, the fourth position was achieved during the year 2013-14 by Chettinad Cements. The last rank was achieved during the year 2009-10.

**Findings and Conclusion****Findings**

- According to Motaals Comprehensive test, the overall performance of the liquidity position of Ultratech Cements during the year 2009-10 was ranked as 1<sup>st</sup> on the basis of liquidity followed by the year, second position during 2010-11 whereas third position was 2012-13 and 2013-14 and the fourth rank was achieved during 2011-12.

- According to Motaals Comprehensive test, year 2009-10 was ranked as 1<sup>st</sup> on the basis of liquidity followed by the year, 2013-14 and the third rank was achieved during 2013-14m fourth rank during 2011-12 by Madras Cements. The last rank was achieved during the year 2010-11.
- According to Motaals Comprehensive test, year 2010-11 was ranked as 1<sup>st</sup> on the basis of liquidity followed by the year 2012-13 ranked second position, 2013-14 achieved third position while 4<sup>th</sup> position achieved by the year 2009-10 by JK Cements. The last rank was achieved during the year 2011-12.
- According to Motaals Comprehensive test, year 2011-12 was ranked as 1<sup>st</sup> on the basis of liquidity followed by the year, 2010-11 ranked second, the third rank was achieved during 2012-13, the fourth position was achieved during the year 2013-14 by Chettinad Cements. The last rank was achieved during the year 2009-10.

### Conclusion

Financial management means the entire gamut of managerial efforts devoted to the management of finance—both its sources and uses—of the enterprise. It has rightly been said that business needs money to make more money. However, it's also true that money gets more money only when it is properly managed. Hence, efficient management of even business enterprise is closely linked with efficient management of its finance. The relationship between two figures expressed mathematically is called a ratio. It is used as index or yard stick for evaluating the financial position and performance of a firm. The optimum utilization of resources, efficient management of activities, control on the costs and expenses, and enhancement of productivity is essential for the survival of the organization. Based on the analysis, this study will provide valuable suggestion which will enable the companies to overcome its weakness and enhance its financial performance. The study is conducted to analyse the present financial performance of the organizations. The situation of the organization was taken for the study is through analyzing the five years annual report which clearly depicts the balance sheet in which the source of funds, application of funds and current liabilities & provisions of the company. The growth is assured if all the companies strengthen the financial position and stabilize their business by considering the suggestions that shall help the management to achieve greater heights in the years to come.

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