

# Financial Performance of Indian Cement Industry: Study of Selected Units

**Dr.Hemant Bhanawat**

Teaching Consultant, UCCMS, Mohanlal Sukhadia University, Udaipur, India

Email - hemantbhanawat@rediffmail.com

**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 financial performance of the cement industries playing a vital role in India. For this, to analyse the production and 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 of India.*

**Key words:** *Cement Company, infrastructure, financial performance.*

## 1. 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.

## 2. OBJECTIVES:

- To analyse the production and sales trend of select cement companies.
- To measure, the short term financial feasibility of the sample companies.
- To evaluate, the long term financial feasibility of the sample companies.
- To identify the factors that influences the profitability status of the selected cement companies.

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.

A financial analyst analyses the financial statements with various tools of analysis before commenting upon the financial health or weaknesses of an enterprise. The analysis and interpretation of financial statements is essential to bring out the mystery behind the figures in financial statements. Financial statements analysis is an attempt to determine the significance and meaning of the financial statement data so that forecast may be made of the future earnings, ability to pay interest and debt maturities (both current and long term) and profitability of a sound divided policy. Financial performance refers to the act of performing financial activity. In broader sense,

Financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. In short, the firm itself as well as various interested groups such as managers, shareholders, creditors, tax authorities, and others.

Ratio analysis is a technique of analysis and interpretation of financial statement. It is the process of establishing and interpreting various ratios for helping in making certain decisions. It is the only means of better

understanding of financial strengths and weakness of a firm. There are various ratios which can be calculated from the information given in the financial statements, but in the study we select the appropriate data and calculate only a few appropriate ratios. The important ratios taken are liquidity ratio, long term solvency activity and profitability ratios.

## 2. REVIEW OF LITERATURE:

A review of past studies and theory relating to the problem of research helps not only definition of concepts, problem focus, objectives and hypotheses, but also the choice of tools of analysis with attention to their assumption and limitation. The several past studies related to cement industry and methods of evaluating its performance and some of the reviews are...

**Jayant Sathaye (2005)<sup>1</sup>** the study revealed that, the Indian cement industry has grown rapidly over the past few decades and there have been significant investments in new cement kilns and associated production equipment. This has led to a situation where India's cement industry is made up of both some of the world's most energy-inefficient plants as well as some of the world's best practice facilities. The challenge for the Indian cement industry is to modernize or phase out the older, inefficient plants while acquiring the best possible cement production technology as production inevitably expands in the coming decades.

**Alovsat Muslumov (2005)<sup>2</sup>** concluded that the privatization was associated with a declining value added and shareholders' profitability in Turkish cement industry. A decline in the value added and shareholders' profitability were mainly caused by the decrease in return on assets. The decline in the return on asset was traced to declining asset productivity. These results are not consistent with previous cross-sectional privatization studies and a number of country studies.

## 3. LIMITATIONS:

- This study is based on the secondary data from published reports and in journals articles for the cement industry during 2004-05 to 2013-14.
- The secondary data such as problems of aggregation, missing data and differences in the same data collected from different sources are met with. Care was taken to minimize the errors arising from those problems.
- The period of study marks a period of adjustments by the industry to the new business environment. How far the industry has succeed in achieving growth and sustaining it, is studied with the secondary data it has to be recognized in generalizing the findings.
- There are also limitations of the tools of analysis used the choice of trend equations and methods of estimation and figures stated.
- These limitations are minimized and explicitly stated wherever need attention.

## 4. 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.

## 5. RESULTS AND DISCUSSIONS:

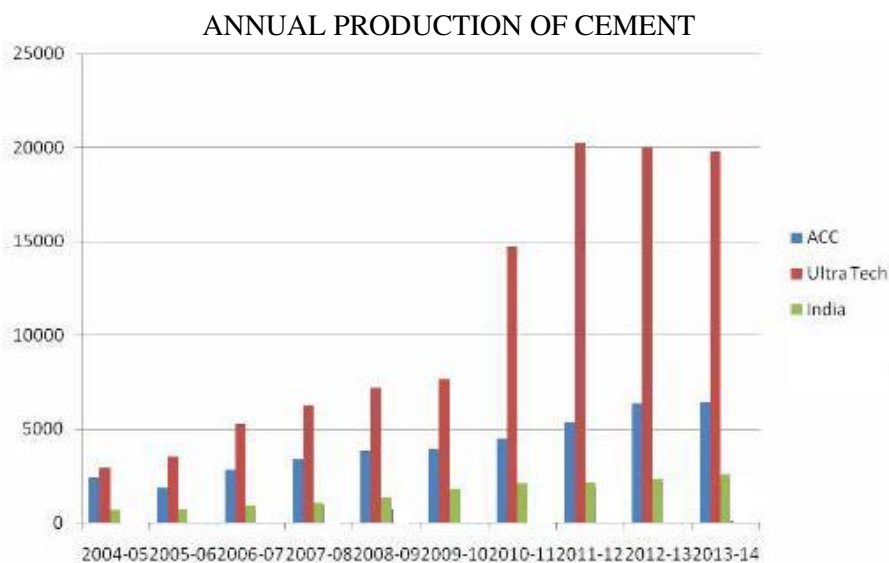
India has huge potential in infrastructure and construction and the cement sector in India is set to receive a major boost. The overall study also provides the regional analysis of cement consumption, production, capacity utilization, and installed capacity in the country. On analyzing the regional trend of cement consumption, we observed that the southern region is creating maximum demand, which is expected to increase more in future. India's cement production has increased at a Compound Annual Growth Rate (CAGR) of 9.7 per cent to reach 272 Million Tonnes (MT) during 2006-13. Presently, India is the second largest producer of cement in the world with a current capacity of around 370 MT which is expected to grow to 550 MT by 2020.

## 6. ANALYSIS AND INTERPRETATION:

The cement industry in India is globally competitive as the industry continues to witness positive trends such as cost control, continuous technology upgradation and increased construction activities. The results and discussions of this objective is present with the support of multiple regression test.

### Production Trend

The cement production has remained subdued during financial year 2014 growing by a modest 3.70 per cent during April-December 2013 primarily due to weak demand from end-user industries.



This chart indicates the annual cement production of select cement companies during the study period from 2004-05 to 2013-14.

### ACC Cement

From the above data analysis it has been observed that, at the beginning of the financial year 2004-05 the total cement production of ACC limited registered at Rs.2430 crores and its cement production had massively increased to Rs.6456 crores by the end of the financial year 2013-14. The total cement production of ACC limited had the growth rate of 11.46 per cent during the study period from 2004-05 to 2013-14.

### Ultra Tech Cement

The above table infers that, the total cement production of Ultra Tech cements was Rs.2956 crores at the beginning of the financial year 2004-05 and it had gradually increased to Rs.19765 crores by the end of the financial year 2013-14. The total cement production of Ultra Tech limited had registered growth rate of 66.19 percent between the study period from 2004-05 to 2013-14.

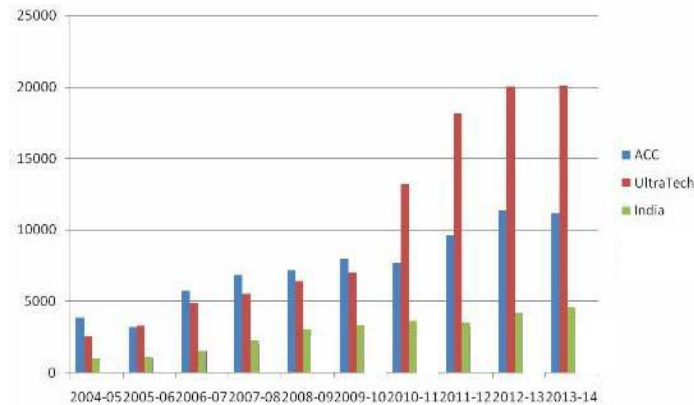
### India Cement

From the above data analysis it has been found that, at the beginning of the financial year 2004-05 the total cement production of India limited was Rs.688 crores and its had increased to Rs.2579 crores at the end of the financial year 2013-14. The total cement production of India limited had registered growth rate of 15.81 per cent during the study period from 2004-05 to 2013-14.

### Sales Trend

The cement sales in India have been expanding on the back of increasing infrastructure activities and demand from the housing sector. The housing segment accounts for a major portion of the total domestic demand for cement in India. In the 12th Five Year Plan government of India, there is a strong focus on infrastructure development and it plans to increase investment in infrastructure.

## ANNUAL SALES OF CEMENT



This chart indicates the annual cement sales of select cement companies during the study period from 2004-05 to 2013-14.

#### ACC Cement

From the above data analysis it has been observed that, at the beginning of the financial year 2004-05 the total cement sales of ACC limited was Rs.3887 crores and its cement sales had massively increased to Rs.11169 crores by the end of the financial year 2013-14. The total cement production of ACC limited had the growth rate of 13.92 per cent during the study period from 2004-05 to 2013-14.

#### Ultra Tech Cement

The above table infers that, the total cement sales of Ultra Tech cements was Rs.2607 crores at the beginning of the financial year 2004-05 and it had tremendously increased to Rs.20078 crores at the end of the financial year 2013-14. The total cement sales of Ultra Tech limited was growth rate of 27.63 per cent during the study period from 2004-05 to 2013-14.

#### India Cement

From the above data analysis it has been found that, at the beginning of the financial year 2004-05 the total cement sales of India limited was Rs.1017 crores and it had increased to Rs.4597 crores at the end of the financial year 2013-14. The total cement sales of India limited had the growth rate of 18.67 per cent during the study period from 2004-05 to 2013-14.

#### Short-Term Financial Feasibility of the Select Cement Companies

Liquidity management is a concept that is gaining serious attention all over the world because of the current financial turmoil and the state of the world economy. It is the ability of a company to meet the short term obligations, to measure the ratios like current ratio, liquidity ratio, etc., of the select cement companies. Hence, it is of utmost important to keep a constant eye on liquidity position of the company as without it the company cannot survive.

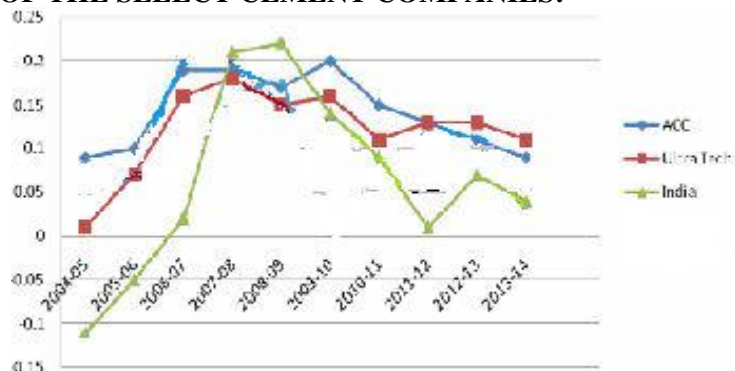
#### Long-Term Financial Feasibility of the Select Cement Companies

Long term Solvency means the ability of the enterprise to meet its long term obligation, to evaluate the ratios like inventory ratio, debtors ratio, long term debt-equity ratio, fixed asset ratio, etc., of the select cement companies. Long term lenders are basically interested in two things: payment of interest periodically and repayment of principal amount at the end of the loan period. Financial solvency ratios are used to judge the long term financial soundness of any business.

#### Profitability position of the Select Cement Companies

The most important financial objective of any business is to earn profit. So, the managers lay more emphasis towards profit. The higher the profit, the more efficient is the business considered. The profitability ratios are calculated to measure the overall efficiency of the business.

#### 7. NET PROFIT RATIO OF THE SELECT CEMENT COMPANIES:



This chart indicates the Net Profit Ratio of select cement companies during the study period from 2004-05 to 2013-14.

### ACC Cement

From the above data analysis it has been observed that, at the beginning of the financial year 2004-05 the net profit ratio of ACC limited was 0.09 and 0.09 by the end of the financial year 2013-14. The net profit ratio of ACC limited had the compound value of 56 per cent during the study period from 2004-05 to 2013-14.

### Ultra Tech Cement

The above table infers that, the net profit ratio of Ultra Tech cements was 0.01 at the financial year 2004-05 and it had 0.11 by the end of the financial year 2013-14. The net profit ratio of Ultra Tech limited had the compound value of 41.67 per cent during the study period from 2004-05 to 2013-14.

### India Cement

From the above data analysis it has been found that, at the beginning of the financial year 2004-05 the net profit ratio of India limited was -.01 and 0.04 by the end of the financial year 2013-14. The net profit ratio of India limited had the compound value of 183.33 per cent during the study period from 2004-05 to 2013-14.

## 8. FINDINGS:

- The highest total cement production of Ultra Tech cements was Rs.2956 crores in the year 2004-05 and it had tremendous increased to Rs.19765 crores by the end of the financial year 2013-14 and the lowest cement production is of India Cement from 2004-05 to 2013-14.
- The highest total cement sales of Ultra Tech cements was 2607 crores at the financial year 2004-05 and tremendously increased to 20078 crores by the end of the financial year 2013-14 and the lowest cement Sales is of India Cement from 2004-05 to 2013-14.
- The net profit percentage of compound value of Ultra Tech and Ramco limited was least as compared to ACC Limited whereas India limited was highest of select cement companies.
- Multiple Regression Analysis indicated out of nine variables tested only one variable (Fixed assets ratio) was found to be statistically significant. Hence it has been concluded that there exists no association between return of total assets and the financial ratios of select cement companies.
- Multiple Regression Analysis indicated out of nine variables tested only one variable (Interest Coverage ratio) was found to be statistically significant. Hence it has been concluded that there exists no association between return of total assets and the financial ratios of select cement companies.

## 9. SUGGESTIONS:

- The profitability can be increased by controlling cost or increasing sales.
- The management is able to pinpoint weak spots and take corrective measures to improve more.

## 10. CONCLUSIONS:

The efficiency of a firm depends upon the working operations of the concern. Profit earning is considered essential for survival of the business. Both long term and short term solvency ratios prove the solvency position and efficiency of the select companies. The financial positions of the selected cement companies are satisfactory.

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