

Evolution of Liquidity Performance of Selected Cement Industries in Tamil Nadu

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ABSTRACT

Cement industry is the second most important primary and basic industry for the economic development of India, second only after iron and steel industry the cement industry is basic industry and makes an important contribution to the development of the other factory industry, to the construction and even to the development of agriculture. Cement is required by every industry cement is an important part of industrial infrastructure. It provides direct and indirect employment to a large number of persons and contributes a major part to Gross Domestic Product. The importance of this study is to ascertain the Liquidity Performance of the selected Cement companies in Tamil Nadu. The cement companies selected for this study are Madras Cement, Chettinad Cement and Ultratech Cement. The working capital management of the companies is analyzed for the period of 2012-13– 2016-17 based on the information provided in balance working capital of the selected companies. This research is analytical research in nature. The data analyses were done using the descriptive statistics.

The results of the analysis clearly indicates that networking capital of Tamil Nadu Cement Industries are very good, they recorded highest networking capital over the selected period of study, while compared to other cement companies such as Madras Cement and Chittinad Cement, whereas the Ultratech cement recorded the negative working capital, which means the current liabilities of the company are higher than current assets which is not a good sign of the financial health of the company. Hence through this study it is recommended to the key officials of Ultratech cements they have to take measure to control the current liabilities of the company, in order to ensure financial health or liquidity of the company for day-to-day operations.

KEYWORDS: Working capital management, Cement Industry, Madras Cement, Ultratech Cement, Chettinad Cement.

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 World Wide 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.

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 to obtain of funds and their effective utilization.

Review of Literature

Ajmal, (2015) the present study explains the importance of cement industries in India. Cement Industry play very significant role in Indian economy. It facilitates the basic infrastructure facility for the development of the country. Indian Cement industry is the second largest industry throughout the Globe only after China. The present study is an attempt to evaluate the financial performance of Cement Industry of India with special reference to Cement Corporation of India limited (CCI). The financial performance will have been evaluated through the financial ratios. Liquidity position of the company will be checked through short term solvency ratios while earning performance have been evaluated with the help of profitability ratios. Other financial and statistical tools and techniques have also been applied in order to check the overall financial position of the company.

Thyigarajan and Uday Kumar (2015) in their Paper” Profitability analysis of select aluminium companies in India” the main objective of this research paper is to analysis the profitability position of the selected aluminium companies for 10 years(2008-2017). The study based on the secondary data, the tools used for analysis are mean, standard deviation, co-efficient of variation and compound annual growth rate. The studies ascertain that the National Aluminium Company Limited shows satisfactory performance in concern with profitability.

Venkatachalam and Kasthuri (2016) in their research article have discussed the cement industry play very significant role in Indian economy. It facilitates the basic infrastructure facility for the development of the country. Indian Cement industry is the second largest industry throughout the Globe only after China. 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. The present study is an attempt to evaluate the financial performance of Cement Industry of India through financial ratios and other financial and statistical tools and techniques have also been applied in order to check the overall financial position of the company.

Objectives of the Study

- To know the growth of cement industries in India and Tamil Nadu
- To compare the liquidity performances of the selected cement industries during the period of study.

Statement of the Problem

The study is conducted to know 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 and provisions of the company.

Research Design and Methodology

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. 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 three 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.

Sources of Data

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

Secondary Data

The Secondary data are collected through company annual reports, company manuals and other relevant documents are textbooks, journals and magazines. The period of study from 2012-13- 2016-2017. The collected data was tested with use motaal's comprehensive test in order to interpret the analysis of cement industries in Tamil Nadu.

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 2013 to 2017. 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 favorable liquidity position to current assets ratio. More the liquidity towards loans and advances to current assets reveals more favorable 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.

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

S.No	Year	Inventories to Current Assets		Liquid Assets / Current Assets		Loans & Advances to Current Assets		Total Score	Ultimate Rank
		%	Rank	%	Rank	%	Rank		
1	2012-13	54.9	I	120	III	46.8	I	5	I
2	2013-14	46.7	II	118	IV	38.1	III	9	II
3	2014-15	36.2	V	124	I	25.0	V	11	IV
4	2015-16	41.4	III	116	V	39.1	II	10	III
5	2016-17	36.7	IV	120	II	35.3	IV	10	III

Source: Annual Reports of Cement Industry in India.

The table shows that Motaals Comprehensive test, the overall performance of the liquidity position of Ultratech Cements during the year 2012-13 was ranked as 1st on the basis of liquidity followed by the year, second position during 2015- 16 whereas third position was 2015-16 and 2013-14 and the fourth rank was achieved during 2016-17.

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

S.No	Year	Inventories to Current Assets		Liquid Assets / Current Assets		Loans & Advances to Current Assets		Total Score	Ultimate Rank
		%	Rank	%	Rank	%	Rank		
1	2012-13	36.3	IV	124.5	I	46.8	I	6	I
2	2013-14	35.7	V	121.9	III	34.5	V	13	V
3	2014-15	42.9	II	120.9	IV	34.6	IV	10	IV
4	2015-16	40.8	III	122.5	II	44.0	II	7	II
5	2016-17	43.1	I	116.8	V	34.9	III	9	III

Source: Annual Reports of Cement Industry in India.

According to Motaals Comprehensive test, year 2012-13 was ranked as 1st on the basis of liquidity followed by the year, 2013-14 and the third rank was achieved during 2016-17 fourth rank during 2014-15 by Madras Cements. The last rank was achieved during the year 2013-14.

Table 3: Motaal's Comprehensive Test showing the Overall Liquidity Position of CHETTINAD Cement

S.No	Year	Inventories to Current Assets		Liquid Assets / Current Assets		Loans & Advances to Current Assets		Total Score	Ultimate Rank
		%	Rank	%	Rank	%	Rank		
1	2012-13	26.7	V	126.1	III	14.6	III	11	IV
2	2013-14	32.9	IV	127.0	II	48.9	II	8	II
3	2014-15	58.1	III	127.2	I	50.9	I	5	I
4	2015-16	60.9	I	119.3	IV	12.3	V	10	III
5	2016-17	59.2	II	118.1	V	14.6	IV	11	IV

Source: Annual Reports of Cement Industry in India.

Table 3 show that Motaals Comprehensive test, year 2014-15 was ranked as 1st on the basis of liquidity followed by the year, 2013-14 ranked second, the third rank was achieved during 2015-16, the fourth position was achieved during the year 2016-17 by Chettinad Cements. The last rank was achieved during the year 2009-10.

Summary and 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 to 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 present study may concluded that the networking capital of Tamil Nadu Cement Industries are very good, they recorded highest networking capital over the selected period of study, while compared to other cement companies such as Madras Cement and Chittnad Cement, whereas the Ultratech cement recorded the negative working capital, which means the current liabilities of the company are higher than current assets which is not a good sign of the financial health of the company. Hence through this study it is recommended to the key officials of Ultratech cements they have to take measure to control the current liabilities of the company, in order to ensure financial health or liquidity of the company for day-to-day operations.

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