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Fundamentals of financial performance of Indian cement industry

Haresh Budhrani[1], Aniruddha Sunil Gachake[2*]
[1] Assistant professor, Department of Accountancy, Smt. Chandibai Himathmal Mansukhani College, Ulhasnagar Affiliated to Mumbai University, Maharashtra, India
[2] Assistant Professor, Department of Commerce, Gondwana University, Gadchiroli, Maharashtra, India

Abstract
The cementindustryplaysa very momentous role in the Indian economy. It eases the basic infrastructure facility for the development of India. The Indian Cement industry is the second largest industry throughout the Globe. The cement companies have seen a net profit growth rate of 85 percent in the last decade. With this enormous success, the cement industry in India has contributed almost 9.5percent to India's economic development. Nowadays, the cement industry is growing faster and contributing tremendously to the economic and social growth of India. To understand theeconomic impact of the cement industry on India's GDP, it becomes imperative to understand the financial performance of the cement industry. The present study is an attempt to evaluate the financial performance of the Cement Industry of India through financial ratios and other financial and statistical tools and techniques toevaluate the overall financial performance of the cement industry and its exact role in our economy company.

Keywords: financial performance, cement industry of India, India GDP

Introduction

Cement is a global commodity, manufactured at thousands of local plants. The cement industry is one of the main beneficiaries of the infrastructure boom. With robust demand and supply, the industry has a bright future. The Indian Cement Industry with a total capacity of 195 million tonnes is the second largest after China. The cement industry is dominated by 20 companies that account for over 70% of the market. Individually no company accounts for over 12% of the market. The major players like L&T and ACC have been quite successful in narrowing the gap between demand and supply. The private housing sector is the major consumer of cement (63%) followed by the government infrastructure sector, forecasted to grow by over 32% by 20019-20 from 2009-10. Among all the states, Maharashtra has the highest cement consumption at12.18%, followed by Uttar Pradesh. In production, Andhra Pradesh is leading with 15.62% of total production followed by Rajasthan. Cement production grew at the rate of 9.1 percent during 2016-17 over the previous fiscal's total production of 158.8 mt (million tons). Due to the rising demand for cement, the sales volume of cement companies is also increasing & companies report higher production, higher sales, and higher profits. The net profit growth rate of cement firms was 85%. The cement industry has contributed around 9.5% to the economic development of India. Outsiders (foreign players) eyeing India as a major market to invest in the form of either merger or FDI (Foreign Direct Investment). The cement industry has a long way to go as the Indian economy is poised to grow because of being on verge of development. 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 percent 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.

Statement of the Problem

The cement industry is one of the significant industries in terms of contribution to Indian GDP. It is the second-highest contributor in terms of excise duty over Rs. 4500 crores in a year. Sales taxes yield around Rs. 3800 crores to state governments. Royalties, Octroi, and other Cesses add another Rs.1800 crores. The industry employs over 2.5lakh persons directly and supports a turnover compliment of nearly 13 lakhs people engaged indirectly. In the present study, the cement industry is selected because of several important reasons. Cement is anelementary product and indispensable for building our nation and its growth is intrinsically linked with the overall growth of the infrastructure sector. The lack of adequate roads, ports, power plants, and other infrastructure projects could prove to be a big hindrance to the rapid growth of the country. The profitability of the business depends on the cost incurred for the production of goods. If the cost increases, the profit of the business is reduced and ultimately the business may go to the liquidation stage. Moreover, the future development program of the company can be designed according to the current expenses and future investment level. Future budget planning is also based on the cost-benefit aspect of the companies.

Therefore, the analysis of the cost structure of the cement industries in India gets important in the present-day context. The efficiency of the business is measured by the amount of profit generated during a particular financial year. The profit of any business isprimarily measured by studying the profitability of investment in it. Hence, an attempt has been made to study the profitability of cement industries in India. Corporate liability is a vital factor in any business. If sufficient liability is not maintained, the enterprise faces the financial embarrassment of renegotiating its obligations to creditors. Thus, the present study is an attempt to assess the financial performance of the Indian cement industry with the following objectives:

The objectives of the present study are as follows:

- To study the financial performance of the Indian cement industry.
- To examine the issues which are affecting the cement industry based on their profitability.

Review of Literature

Review of literature is a medium where information is gathered from previous studies and government reports. Based on this collection, new concepts are re-established and researched. with this, knowledge gets doubled in a very short period. The review of literature guides the researchers for getting a better understanding of the methodology used, limitations of various available estimation procedure perspectives and databases, and lucid interpretation and reconciliation of the conflicting results. Besides this, the review of empirical studies explores the avenues for future and present research efforts related to the subject matter. In case of conflicting and unexpected results, the researcher can take the advantage of the knowledge of other researchers simply through the medium of their published works. A large number of research studies have been carried out on different aspects of the working of the public and private sector by the researchers, Economists, and Academicians in India. Different authors have analyzed financial performance froma dive. A review of these analyses is important to develop an approach that can be employed in the context of the study of selected Indian Public and Private Sector Manufacturing Enterprises *Viz*. Steel, cotton, and cement. Therefore, the present part reviews the various approaches to the study on financial analysis and performance.

Arora and Sarkar (2002) observed that the boom in the real estate and construction industry in India has caused a sudden and sharp increase in the price of cement to the extent of price increment as high as 17 percent in a single month. They attempt to use the theories of collusive behavior to explain this sudden increase. Collusive behavior of cartel formation refers to the illegal behavior of firms within an industry to explicitly or tacitly collude to regulate their market behavior to restrict competition. There is a very thin blurred line of distinction between legitimate cooperation and illegitimate collusion. Cartel members agree on fixing prices, total industry output, market shares, rigging bids, setting common sale agencies, allocating territories, or a combination of these measures to gain supernormal profits. In the process of assessing the behavior of cement industry behavior, the paper analyses the characteristics of an ideal cartel detection policy and structural and behavioral cartel detection methods. Parameters studied include the firm concentration index, region-wise production, and consumption, capacity utilization, the cost to sales ratio, etc. Their analysis demonstrates that the sudden surge in the price of the cement is neither due to the demand-supply mismatch nor a sudden increment in the cost of producing cement. The contention that the cement industry engaged in illegitimate collusion is further strengthened by observing the recent decline in cement price after the government announcement to import cement.

CAR report (2004) reasons out that the demand for cement is directly linked with the economic growth of the country. With the National GDP expected to grow at seven to eight percent and the long-run demand elasticity of cement concerning GDP being estimated to be 1.4, the quantity of cement demand in the country is expected to grow by more than 10 percent. The report states that the “Working Group on Cement Industry”, constituted by the Planning Commission for the formulation of the Tenth Five Year Plan too has projected a growth rate of 10 percent for the cement industry during the plan period. In terms of end-use, the housing sector is the largest consumer of cement in the country, accounting for about 60 percent of the total consumption. Infrastructure (including roads, urban development, dams, etc.,) accounts for 25 percent of the total demand, other sectors account for the balance of 15 percent.

Padmaja Manoharan (2012) through the analytical study on “Profitability of Cement Industry in India” has revealed the variation in profitability of Indian cement companies depending on age, size, and region. The study identified that the quality of earning depends on management and leverage management. Further, the analysis concludes that the profitability and quality of earnings are influenced by the liquidity factor.

Santana Kumar Ghosh &*et al* (2013) [9] in their paper, “Utilization of Current Asset and Operating Profitability and an Empirical Study on Cement in India”. The study concluded that the degree of a current asset is positively associated with the operating profitability of the firm.

Singh, K.P. (2019) in his study found that the size of the unit has a significant role in the capital structure of the cement industry. His study has revealed that the returns and profitability can be increased by increasing the firm size from small to big.

Tiwari R.S. (2018) in his paper identified that the industry must earn reasonable profits to survive and this will mostly depend on the cost of production. He also suggested that proper management, effective control, and cost reduction strategies are the most important methods that need to be adopted to improve the profitability of cement companies.

Scope of the Study
This study focuses on the sustainable exercises adopted by the cement companies in India and illustrates extensive techniques that are executed to boost profitability and liquidity position in the cement industry. The motive of the study is to better understand the factors influencing the profitability and liquidity of cement companies. Moreover, the initiative of this research is to investigate the current state of profitability and liquidity position and to offer suitable suggestions to enhance its performance. The study was restricted to and emphasized the profitability and liquidity of the cement industry in India through facts and figures of available financial statements. This study has been attempted to check the profitability and liquidity 66 of selected companies. The profitability and liquidity of the cement industry were evaluated on various financial parameters, such as financial statements, ratios, and trend percentages. The present study has also identified the nature of the relationship between the various aspects of the financial performance of the cement industry.

Research Methodology
The research methodology is designed for discovering, interpreting, and developing methods and systems for the advancement of our knowledge regarding the financial performance of the cement industry in India.

Research Design
Research design constitutes the blueprint for the collection, measurement, and analysis of data. The research applied in the study is Analytical Research Design. The analytical study is a system of procedures and techniques of analysis applied to quantitative data. It may consist of a system of mathematical models or statistical techniques applicable to numeric data.

Sources of Data
The present study is primarily based on the collection and interpretation of secondary data. The data used in this study are excerpted from anindustry-leveldatabase on India’s corporate sector, compiled by the Centre for Monitoring the Indian Economy (CMIE), a private company in India.

Data Analysis
The Performance analyses of the cement industry in India were analyzed for the period of ten years from 2007-2008 to2017- 2018 with the help of the One way without multiplication ANOVA using IBM SPSS-version-16.Analysis of Variance (ANOVA) has been used to find out whether the liquidity, leverages, and efficiency positions of the cement industry during the selected period have any significant difference in the profitability position.
Research question-1: Whether current financial ratios have any relation to the profitability of the cement industry.

Hypothesis 1
H0: There is no significant relationship between the current ratio having an impact on the Profitability Position of the Indian Cement Industry.
H1: There is a significant relationship between the current ratio having an impact on the Profitability Position of the Indian Cement Industry.

Table 1: Descriptive statistics (ANOVA) of Current Ratio and its impact on the profitability of cement industry.

	Sum of Squares	**Mean Square**	**F**	**Sig.**
Between Groups	0.041	0.051	3.89	0.146
Within Groups	0.074	0.007		
Total	0.084			

The above table discloses that the calculated ‘F Value’ is4.158. Whereas the table value is 5.68 at a 5% level of significance. This is concluded that the calculated value is less than the table value. Thus, from the descriptive statistics, it is concluded that there is no significant relationship between the current ratio having an impact on profitability positions of the cement industry during the period of study has been accepted.

Hypothesis 2
H0: There is no significant difference between the liquidity ratio and its impact on the Profitability Position of the Cement Industry.
H1: There is a significant difference between the liquidity ratio and its impact on the Profitability Position of the Cement Industry.

Table 2: Descriptive statistics (ANOVA) of Liquidity Ratio and its impact on the profitability of cement industry.

	Sum of Squares	Mean Square	F	Sig.
Between Groups	0.019	0.018	4.021	0.113
Within Groups	0.045	0.007		
Total	0.061			

The above data reveals that the calculated ‘F Value’ is 4.021, Whereas the table value is 5.68 at a 5% level of significance. From the above data, it is found that the calculated value is less than the table value. The above table concludes that there is no significant relationship between the liquidity ratio and its impact on profitability.

Hypothesis 3
H0: There is a significant difference between the Interest Coverage Ratio and its impact on the profitability of the cement industry.
H1: There is no significant difference between the Interest Coverage Ratio and its impact on the profitability of the cement industry.

Table 3: Descriptive statistics (ANOVA) of Interest Coverage Ratio and its impact on the profitability of the cement industry.

	Sum of Squares	Mean Square	F	Sig.
Between Groups	0.410	0.0421	7.072	.029
Within Groups	0.386	0.049		
Total	0.912			

The above table reveals that the calculated ‘F Value’ is7.072. Whereas the table value is 5.68 at a 5% level of significance. The calculated value is more than the table value. The above table concludes that there is a significant relationship between the interest coverage Ratio having an impact on profitability positions of the cement industry during the period of study.

Hypothesis 4
H0: There is no significant difference between the net profit ratio having an impact on the Profitability Position of the Cement Industry.
H1: There is a significant difference between the net profit ratio having an impact on the Profitability Position of the Cement Industry.

Table 4: Descriptive statistics (ANOVA) of Net Profit Ratio and its impact on the profitability of the cement industry.

	Sum of Squares	Mean Square	F	Sig.
Between Groups	.007	.007	8.321	0.023
Within Groups	.009	.002		
Total	.019			

The above table 2 reveals that the calculated ‘F Value’ is8.321. Whereas the table value is 5.32 at a 5% level of significance. The calculated value is more than the table value which confirms that there is a significant difference between the net profit ratio having an impact on the Profitability Position of the Cement Industry.

Hypothesis 5
H0: There is no significant difference between the Debt-Equity ratio having an impact on the Profitability Position of the Cement Industry.
H1: There is a significant difference between the Debt-Equity ratio having an impact on the Profitability Position of the Cement Industry.

Table 5: Descriptive statistics (ANOVA) of Debt Equity Ratio and its impact on the profitability of the cement industry.

	Sum of Squares	Mean Square	F	Sig.
Between Groups	0.081	0.084	8.654	0.017
Within Groups	0.074	0.008		
Total	0.164			

The above data reveals that the calculated ‘F Value’ is 8.654 Whereas the table value is 5.32 at a 5% level of significance. The calculated value is more than the table value which confirms that there is a significant difference between the Debt-Equity ratio having an impact on the Profitability Position of the Cement Industry.

Conclusion

The conclusions from the above study are:

1. The current ratio hasnoimpact on the profitability positions of the Indian cement industry.
2. The liquidity ratio hasno impact on the profitability positions of the Indian cement industry.
3. The net profit ratio hasan impact on the profitability positions of the Indian cement industry.
4. The debt-equity ratio hasan impact on the profitability positions of the Indian cement industry.
5. The interest coverage ratio hasan impact on the profitability positions of the Indian cement industry.

Suggestions

The suggestions drawn from the above study are:

1. Industry can reduce the interest burden by giving quality products and building brand image which will help to increase profit and utilize maximum production capacity.
2. They can control the cost of goods sold and operating expenses.
3. Improper planning and delays in the implementation of projects lead to a rise in their cost.So,proper planning should be made.
4. The industrytries to increase production and sales for getting maximum profit to strengthen its financial position.
5. The management should utilize maximum production capacity.

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