

RESEARCH ARTICLE

## Problems and Prospects of Selected Cement Companies in India

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### Abstract

The present study evaluated the problems and prospects of selected cement companies in India. This research article was based on secondary data collected from annual report of cement industries and profile of the industries. Financial analysis is a powerful tool which helps in determining the problems in the operation and financial position of the industries. The scope of the problem and prospects is very wide and broad based; hence this study has analyzed only the financial problems of the company. Study accompanied on problems and prospects of cement companies provided an assessment of problems in liquidity and profitability analysis and prospects of the cement companies based on their balance sheet and profit and loss a/c. The tools used for analysis and interpretation have given useful and productive suggestions. The company should enrich its performance for meeting challenges and exploiting chances in future and helps the management to take financial decisions. Based on the findings, suggestions are given by the researcher for better improvement of the cement industry in future. This study also finds out the extents where the industries can expand the position precision of its assets and funds.

**Keywords:** Cement, financial analysis, secondary data, liquidity, profitability analysis, challenges.

### Introduction

Cement is the more important raw material for construction process. Cement industry plays a vital role in the infrastructural growth of the country. Due to the enormous geographical size and huge population of the country, innumerable constructions were undertaken by the Central Govt., State Govt., Public sectors and other establishments; with private sector create vast demand for cement. In adding, provision for housing is the leading and principal requirement of each Household and consequently, market demand of cement for remote consumption is growing continuously. Cement is a binder, a material that circles and hardens and can fix other supplies together. The word "cement" traces to the Romans, who used the term *Opus caementicium* to pronounce masonry like present concrete that was made from crumpled rock with scorched lime. The volcanic ash and crushed brick extracts were added to the well-done lime to attain a hydraulic folder later stated to as *cementum*, *cimentum* and *cement*. In 1889, a Kolkata based company took manufacturing cement from Argillaceous. In 1914, India Cement Company Ltd. was established in Porbandar using a capability of 10,000 tons installed capacity for production. The early insertion to the cement industry in India was during the 1<sup>st</sup> world war and then the industry started mounting at a speed in dealings of production, industrial units, and installed capability. This specific period in the past was mentioned to as the nascent stage of Indian cement industry. Concrete Association of India was recognized in 1927, to generate free alertness on the function of cement as

well as to circulate cement consumption. The cement marketplace in India is estimated to develop at a compound annual growth rate of 8.96% throughout the year 2014 to 2019. In India, 67% of the overall consumption of cement for the housing sector is the major demand for cement. The additional main consumers of cement contain infrastructure at 13%, commercial construction at 11% and industrial construction at 9%. To meet the increase in demand, cement corporations are estimated to enlarge 56 million tons capability over the following 3 years. The cement capability in India may record a growing of 8% by subsequent year end to 395 MT from the present-day near of 366 MT. It might raise more to 421 MT by end of the year 2017. The per capita consumption of the country positions at nearby 190 kg. An overall of 188 large cement plants organized for 97% of the entire capacity installed in the country, although 365 small plants were break. Of these, 77 large cement plants are situated in the states of AP, Rajasthan and TN. In India cement industry is controlled by a few firms. The 70% of the entire cement production of the country comes under the top 20 cement companies.

Financial analysis methods are used like ratio analysis and trend analysis are performed to examine the financial data (Rajendran and Nagarajan, 2010). Sandhar and Janglani (2013) investigated on liquidity and profitability of selected Indian cement companies. This study perceived the working capital management in expressions of profitability and liquidity from the listed

companies in the NSE. The regression analysis is used to find out the impact of liquidity on profitability, Correlation analysis was used to invention the relationship between liquidity with profitability. So, keeping the above facts in view, the following problems were addressed in this study.

1. How for the investigated cement companies have been efficient in terms of profitability, liquidity and activity?
2. What are the problems faced by the company?
3. Is there any possibility that the companies will face a financial crisis in future?

The present study was aimed with the following objectives:

1. To examine the prospects of cement companies in India.
2. To assess the problems faced by cement companies through financial analysis.
3. To suggest ways and means to improve present condition.
4. To identify the strength of the selected cement companies in the area of liquidity and profitability.

### Materials and methods

*Company profile:* This study uses data collected from 10 years of following cement industries based on sales turnover above 1000 Core.

*Ultra Tech Cement:* In the year 2000, Ultra Tech cement was incorporated by Larsen and Toubro. It was developed by Grasim and changed name as Ultra Tech Cement in the year 2004. Ultra Tech cement is a share of Aditya Birla group; it is the country's biggest exporter of cement ashes. Ultra Tech cement Ltd. has a yearly capability of 52 million tons. Ordinary portland cement, portland pozzalana and portland blast furnace slag cement are produced and marketed. It also produces ready mix concrete (RMC). All plants have received ISO 9001 certification.

*ACC Limited:* India's leading producer of cement and concrete is ACC Ltd. ACC is involved in the production of cement and ready-mixed concrete. They are manufacturing a variety of Portland cement for common construction and different tenders. In addition, they also offer two products namely, bulk cement and ready mix concrete. The company's actions are extent throughout the country and have 16 modern cement factories.

*Ambuja cements:* Ambuja cements was incorporated in the year 1986. The company's entire cement volume is 18.5 million tones. Their plants are particular of the most effective in the world. With environment protection actions that are on equality with the luxury in the world. Ambuja monitors an exclusive homemade attitude of giving people the expert to set their own objectives and the liberty to attain their objectives.

This simple vision has generated an environment where there are no restrictions to superiority, no restrictions to effectiveness. Ambuja is the maximum profitable cement corporation in India, and one of the lowermost cost producers of cement in the world.

*Shree Cement Limited:* It is one of largest and premier cement makers in North India. Under their portfolio, they have three brands, which are Shree Ultra Jung Rodhak Cement, Bangur Cement and Rockstrong Cement. Their industrial units are situated at Rajasthan in Beawar, and Ras. They are correspondingly having the crushing units in Khushkhera in Rajasthan.

*Prism Cement Limited:* Rajan Raheja Group promoted by the Prism Cement Limited (PCL) is an ISO 9001:2000 certified industry. Prism cement was amalgamated on March 26<sup>th</sup> 1992 in the name of Karan Cement Limited. The Corporation productions and markets Portland Pozzollana Cement (PPC) through the trademark Champion and the full collection of Ordinary Portland Cement (OPC) Grades of 33, 43 and 53. It functions one leading solitary furnace cement plant at Satna, Madhya Pradesh, furnished with state-of-the-art technology and mechanical provision from F.L Smidth and Co., Denmark, the world privileged cement expertise.

*Data collection:* This study is mainly based on the secondary data. They were collected from company balance sheet, profit and loss account, published journals, magazines and newspapers.

*Research tools:* Financial performance is analyzed with the help of ratio analysis based on 10 years of data from 2005 to 2014, through mean and standard deviation (SD). Ratios calculated for this study is as follows.

- Current ratio
- Quick ratio
- Gross profit margin ratio
- Net profit margin ratio
- Return on investment
- Mean
- SD (Standard deviation)

*Ratio analysis:* The financial performance of cement industry is evaluated mainly from following facts namely liquidity performance through current, liquid and profitability through gross profit, net profit, return on investment. These ratios were computed to make effective conclusions about the financial performance of cement industries.

*Liquidity ratios:* Liquidity ratio measures the capability of the firm to meet its short-term responsibilities i.e. ability of the firm to pay its current liabilities as and when they decrease in arrears. These ratios imitate the short term financial solvency of a company (Maheswari, 2004).

Table 1. Liquidity analysis of studied cement companies.

| Industries    | 05   | 06   | 07   | 08   | 09   | 10   | 11   | 12   | 13   | 14   | Mean | SD   |
|---------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Current ratio |      |      |      |      |      |      |      |      |      |      |      |      |
| Ultra Tech    | 1.91 | 1.39 | 1.27 | 1.02 | 1.09 | 1.13 | 1.08 | 1.02 | 0.99 | 1.05 | 1.19 | 0.28 |
| ACC           | 1.24 | 1.15 | 1.26 | 0.99 | 0.99 | 0.72 | 0.73 | 1    | 0.73 | 0.74 | 0.96 | 0.22 |
| Ambuja        | 1.41 | 1.48 | 1.68 | 1.36 | 1.59 | 1.14 | 1.31 | 1.27 | 1.29 | 1.36 | 1.4  | 0.15 |
| Shree         | 1.79 | 1.31 | 1.91 | 2.24 | 2.03 | 1.64 | 2.09 | 2.43 | 2.75 | 2.15 | 2.03 | 0.41 |
| Prism         | 1.19 | 1.01 | 0.82 | 1.09 | 1.05 | 1.23 | 1.39 | 1.18 | 1.22 | 1.27 | 1.15 | 0.16 |
| Quick ratio   |      |      |      |      |      |      |      |      |      |      |      |      |
| Ultra Tech    | 1.26 | 0.71 | 0.69 | 0.54 | 0.54 | 0.5  | 0.49 | 0.52 | 0.49 | 0.58 | 0.63 | 0.23 |
| ACC           | 0.69 | 0.67 | 0.85 | 0.66 | 0.71 | 0.47 | 0.49 | 0.67 | 0.39 | 0.39 | 0.59 | 0.15 |
| Ambuja        | 0.68 | 0.68 | 1.09 | 0.86 | 0.95 | 0.74 | 0.93 | 0.93 | 0.95 | 1.03 | 0.88 | 0.14 |
| Shree         | 1.05 | 0.77 | 1.62 | 1.89 | 1.82 | 1.27 | 1.52 | 1.59 | 1.82 | 1.07 | 1.44 | 0.38 |
| Prism         | 0.55 | 0.49 | 0.33 | 0.49 | 0.58 | 0.74 | 0.81 | 0.73 | 0.79 | 0.85 | 0.64 | 0.17 |

Source: Compiled from Annual Reports of the Company.

Table 2. Profitability analysis of studied cement companies.

| Industries           | 05    | 06    | 07    | 08    | 09    | 10    | 11    | 12    | 13    | 14    | Mean  | SD    |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Gross profit ratio   |       |       |       |       |       |       |       |       |       |       |       |       |
| Ultra Tech           | 7.23  | 15.19 | 28.36 | 31.64 | 26.38 | 28.03 | 19.15 | 23.46 | 23.64 | 18.88 | 22.19 | 7.27  |
| ACC                  | 16.28 | 26.7  | 32.78 | 32.49 | 28.34 | 32.84 | 24.03 | 20.87 | 17.7  | 16.12 | 24.81 | 6.81  |
| Ambuja               | 28.19 | 27.48 | 34.85 | 52.67 | 36.15 | 29.68 | 27.72 | 25.11 | 25.35 | 21.88 | 30.9  | 8.78  |
| Shree                | 25.59 | 27.5  | 44.32 | 40.18 | 34.19 | 39.49 | 22.76 | 26.91 | 27.82 | 23.19 | 31.19 | 7.75  |
| Prism                | 15.99 | 21.23 | 42.52 | 39.78 | 27.22 | 15.79 | 7.19  | 2.24  | 1.61  | 0.98  | 17.45 | 15.27 |
| Net profit ratio     |       |       |       |       |       |       |       |       |       |       |       |       |
| Ultra Tech           | 11.35 | 23.74 | 44.25 | 41.16 | 31.51 | 33.69 | 18.9  | 26.36 | 23.97 | 18.48 | 27.34 | 10.35 |
| ACC                  | 9.73  | 17.12 | 21.55 | 20.91 | 16.92 | 20    | 14.5  | 13.72 | 9.34  | 9.81  | 15.36 | 4.69  |
| Ambuja               | 17.19 | 18.03 | 24.17 | 31.6  | 22.74 | 17.22 | 17.09 | 14.37 | 13.33 | 14.13 | 18.98 | 5.66  |
| Shree                | 4.83  | 2.65  | 12.62 | 12.35 | 21.29 | 18.56 | 6.07  | 10.66 | 17.96 | 13.37 | 12.03 | 6.17  |
| Prism                | 5.87  | 10.86 | 25.15 | 27.57 | 14.87 | 8.85  | 2.83  | -0.67 | -1.25 | -1.64 | 9.24  | 10.55 |
| Return on investment |       |       |       |       |       |       |       |       |       |       |       |       |
| Ultra Tech           | 11.35 | 23.74 | 44.25 | 41.16 | 31.51 | 33.69 | 18.9  | 26.37 | 23.97 | 18.48 | 27.34 | 10.35 |
| ACC                  | 23.48 | 27.62 | 48.02 | 51.79 | 38.28 | 41.33 | 27.32 | 25.77 | 26.49 | 22.17 | 33.22 | 10.74 |
| Ambuja               | 20.24 | 24.37 | 52.36 | 60.59 | 37.94 | 31.98 | 28.37 | 27.03 | 28.65 | 21.63 | 33.31 | 13.34 |
| Shree                | 29.89 | 30.68 | 45.74 | 45.05 | 37.15 | 39.79 | 22.67 | 33.98 | 31.28 | 22.69 | 33.89 | 8.13  |
| Prism                | 21.46 | 38.81 | 80.66 | 56.95 | 27.13 | 25.42 | 13.96 | 10.59 | 9.46  | 9.88  | 29.43 | 23.4  |

Source: Compiled from Annual Reports of the Company.

**Current ratio:** Current asset means asset that will either be used up or converted into cash within a year's time or throughout the common operating sequence of the business whichever is elongated. Current liability means liability payable within the year or during the operating cycle, whichever is longer. It is expressed as: Current Assets/Current Liabilities.

**Quick ratio:** Quick ratio is also named as acid test ratio or liquidity ratio. This ratio is determined by comparing the liquid assets to current liabilities. Prepaid expenses and stock are not in use as liquid assets. The ratio may be stated as: Liquid Assets/Current Liabilities.

**Profitability ratio:** The ratio measures the result of business tasks or generally enactments and effectiveness of the firm. Profitability is an indication of the effectiveness with which the processes of the business are passed on. Poor operational performance may indicate poor sales and hence poor profits (Maheswari, 2004)

**Gross profit margin:** Gross profit (GP) margin points out the efficiency of the manufacture or trading procedures. It can be expressed as: Gross Profit × 100/Net Sales.

**Net profit margin:** This ratio indicates net margin on sales. It can be expressed as: Earnings after interest and taxes × 100/Net Sales.

**Return on investment:** It can be expressed as: Operating profit/Capital Employed.

**Limitations of the study:** This study is established on only secondary data and this study is limited to 10 years from 2005 to 2014 for the analysis and conclusions. A few of the companies had to be compulsorily excluded from analysis because of non-availability of data either due to non-submission of statements or due to their closure/merger/suspension of operation during the study period. There are many financial performance measurements using ratio analysis. There might be difficult to use all the measures. Financial analysis can easily be window-dressed.

## Results and discussion

Table 1 shows the current ratio of Ultra Tech, ACC, Ambuja, Shree and Prism cement companies and the mean values are 1.19, 0.96, 1.4, 2.03 and 1.15 respectively and the SD are 0.28, 0.22, 0.15, 0.41 and 0.16 respectively. From the findings, Shree cement company falls under the standard of 2:1 and the other companies does not fall under the standard of rule. Table 1 shows the quick ratio of Ultra Tech, ACC, Ambuja, Shree and Prism cement companies and the mean values are 0.63, 0.59, 0.88, 1.44 and 0.64 respectively and the SD are 0.223, 0.15, 0.14, 0.38 and 0.17 respectively. From the findings, Shree Cement Company falls under the rule of thumb 1:1 respectively and the other companies does not come under the rule of thumb.

Table 2 shows the Gross profit ratio of Ultra Tech, ACC, Ambuja, Shree and Prism cement companies and the mean value are 22.19, 24.81, 30.9, 31.19 and 17.45 respectively, the SD of the companies are 7.27, 6.81, 8.78, 4.75 and 15.27 respectively. From the findings, Shree cement and Ambuja Cement Companies are better compared to other companies. Table 2 shows the Net profit ratio of Ultra Tech, ACC, Ambuja, Shree and Prism cement companies and the mean value are 27.34, 15.36, 18.98, 12.03 and 9.24 respectively, the SD of the companies are 10.35, 4.69, 5.66, 6.17 and 10.55 respectively. From the findings, Ultra Tech have highest Net profit ratio. Table 2 shows the Return on investment of Ultra Tech, ACC, Ambuja, Shree and Prism cement companies and the mean values are 27.34, 33.22, 33.31, 33.89 and 29.43 respectively, the SD of the companies are 10.35, 10.74, 13.34, 8.13 and 23.4 respectively. The higher ratio illustrate greater utilization of the asset, all the companies have more or less same ratio.

*Problems and prospects:* Based upon the findings, the following were the problems and prospects obtained from the study:

1. Shree cement company liquidity position is good; they need to maintain the same level. Other companies are having problems in liquidity position. They want to concentrate in liquidity position; it will help them to meet the day to day operations of the companies.
2. Through gross profit ratio analysis, Ultra Tech, ACC, Prism companies having problems. They want to increase the efficiency of production and trading activities. Prospects for good profit.
3. Ultra Tech cement have good margin on sales when compared to all companies, so other companies want to reduce expenses and increase the profit.
4. Compared with Ultra Tech, ACC, Ambuja and Shree cement, Prism incurred high cost of raw materials. So the company wants to take remedial steps to diminish the expenses which will help to raise the profit of the company.

5. Shree cement and Prism cement wants to reduce interest rate; it will help to raise profit of the company.
6. Compared with all companies, Shree cement company depreciation cost is high, so the company wants to install new latest technology equipment which will reduce cost and increase production.
7. All the companies have satisfactory level of return on investment.

## Conclusion

Study accompanied on problems and prospects of cement companies provide an opinion of assessment of problems in liquidity and profitability analysis and prospects of the cement companies based on their balance sheet and profit and loss a/c. The tools used and analysis and interpretation have given method for useful and productive suggestions. The ratio analysis of the company is suitable. The company should enrich its performance for meeting challenges and exploiting chances in future and helps the management to take financial decisions. The movement and growth of the Ultra Tech, ACC, Ambuja, Shree and Prism companies are favorable in future period.

This study has theoretical and practical significance and will help the academicians and researchers to develop new ideas for future study. The study focuses on the problems and prospects of cement industry, which may interest not only those who are interested in manufacturing cement or related products but also others to see the process of change within the industry. This study will be useful to the management to take investment decisions and anticipate future conditions, identification of its areas of strength and weakness and to take appropriate decisions for the maximization of its intrinsic value. The study may also be useful to creditors and the financial institutions in their effective credit policy formulation. The study will act as a guide to investors in their investment decisions.

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