



## A STUDY ON THE WORKING CAPITAL MANAGEMENT IN CEMENT INDUSTRIES IN TAMILNADU - A COMPARATIVE STUDY

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### Abstract

Working capital is the life blood of business, which includes the management of day-to-day activities of the company. It is a measure which indicates the company's efficiency and financial health of the organization. The main of this study is to ascertain the working capital management of the selected Cement companies in Tamilnadu. The cement companies selected for this study are India cements, Dalmia Bharat cements, Chettinad cements and Ultratech cements. The working capital management of the companies is analyzed for the period of 2012– 2017 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 and ratio analysis.

The results of the analysis clearly indicates that networking capital of India cements is very good, they recorded highest networking capital over the selected period of study, while compared to other cement companies, 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:** Cement Industry, Working Capital Management, India Cements, Dalmia Bharat Cements, Ultratech Cement, Chettinad Cements.

### Introduction

India's cement industry is playing an important role of its economy, providing employment to more than a million people, directly or indirectly. The construction industry in India relies heavily on the cement industry for natural reasons Indian as well as foreign Companies have invested billions in the Indian cement Industry after regulations were lifted off in 1982. During the next four to five years, the Indian Cement market is projected to witness a Compound Annual Growth Rate (CAGR) of around 8.96 Percent. Approximately, 67% of the cement consumption can be attributed to the housing Sector in India, 13% to the Infrastructure Sector, 11% to the Commercial construction segment and 9% Industrial Construction Cement Production increased at a CAGR of 6.44 percent to 282.79 million tones over FY 2007-2016. As per the 12th Five year Plan, Production is expected to reach 407million tones by FY2017.

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.

### Review of Literature

**Alovsat Muslumov (2005)** 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.

**Chandrakumarmangalam and Govindasamy (2010)** investigate the relationship between the leverage (financial leverage, operating leverage and combined leverage) and the earning per share, and this study also explains the relationship between the Debt equity ratio and Earning per Share and how effectively the firm be able debt financing, the results suggest that the leverage and profitability and growth are related and the leverage is having impact on the profitability of the firm.

**Chakraborty (2010)** employed two performance measures, including ratio of profit before interest, tax and depreciation to total assets and ratio of cash flows to total assets and two leverage measures, including ratio of total borrowing to assets and ratio of liability and equity, and reported a negative relation between these ones.



**Hajihassani (2012)** presented A Comparison of Financial Performance in Cement Sector in Iran. This study presents comparison of financial performance for the period 2006–2009 by using financial ratios and measures of cement companies working in Iran. Financial ratios are divided into three main categories and measures including two indicators. This work concludes that the performance of cement companies on the basis of profitability ratio is different than on the basis of liquidity ratio, leverage financial.

**Dr. Pratibha Jain & Prof. Megha Mehta (2013)** In their Paper “Comparative Study of Profitability Analysis of Indian Aluminium Industries between Public and Private sector” the main objective of this research paper is to analyse the profitability position of the selected aluminium companies for 5 years (2008-2014). The study based on the secondary data, the tools used for analysis in different Profitability ratio and regression analysis. The study ascertains that the Aluminium Industries in India shows satisfactory performance in concern with profitability.

**Usman Dawood (2014)** in his research paper on Factors influencing profitability of commercial banks believe that there no relationship between the cost efficiency and profitability but observes satisfaction and deposits do support in profitability where as size of the bank doesn't help in profitability.

**Dr.T.Srinivasan Dr.M.Thiru Narayanasamy (2015)** in their study has found that better utilization of the resource can lead for enhances profitability of the organisation apart from customer satisfaction through quality service, cutting off expenses etc. clear that profitability.

**Dr.M.Thyigarajan and Mr.J.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, coefficient of variation and compound annual growth rate. The studies ascertain that the National Aluminium Company Limited shows satisfactory performance in concern with profitability.

#### **Objectives of the Study**

1. To assess the liquidity position of the companies.
2. To analyze and compare the performances of the cement industries during the period of 5 years (2013- 2017).

#### **Statement of the Problem**

The study is conducted to analyses 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.

#### **Research Methodology**

Meaning of 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:** The Secondary data are collected through company annual reports, company manuals and other relevant documents. On websites, textbooks & journals ect., Period of Study The period of study covers 5 years (2013-17).

### Limitations of the Study

This study is mainly based on secondary data.

1. It is only for a period of 5 years.
2. It is confined only to four five cement companies in the.
3. The private sector, so it cannot be generalized for other similar or different industry having identical operations.

### 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 J.K. 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	33.1	III	112.7	V	27.9	II	10	IV
2	2013-14	32.9	IV	135.5	I	36.9	I	6	I
3	2014-15	30.4	V	133.0	II	27.8	IV	11	V
4	2015-16	36.5	II	113.9	IV	27.9	III	9	II
5	2016-17	39.0	I	122.4	III	26.3	V	9	III

Source: Annual Reports of Cement Industry in India.

Table 3 shows that Motaals Comprehensive test, year 2013-14 was ranked as 1st on the basis of liquidity followed by the year 2015-16 ranked second position, 2016-17 achieved third position while fourth position achieved by the year 2012- 13 by JK Cements. The last rank was achieved during the year 2014-15.

**Table 4: Motaal's Comprehensive Test Showing the Overall Liquidity Position of CHETTINAD 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	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 4 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 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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