

Analysis Of Liquidity And Profitability Of Select Cement Companies In India.

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Abstract:

The current investigation aims to examine the Liquidity and Profitability of select Cement Companies in India spanning a period from 2009-2010 to 2019-2020. This study focuses on ten Indian cement companies chosen based on their market capitalizations and availability of data. Data for the analysis were sourced from secondary sources such as the Capitaline database, Money Control, various books, journals, websites, and other pertinent sources. Statistical methods including mean, standard deviation, coefficient of variation, and rank correlation analysis were employed for analysis. Various financial ratios such as the working capital to current asset ratio, stock to current asset ratio, and quick asset to current asset ratios were considered in the study. The study reveals among the select companies correlation coefficient between compound rank of three Motaal ratios and rank of ROCE. of Heidelberg is statistically significant at 0.05 level (2-Tailed) and correlation coefficient between compound rank of three Motaal ratios and rank of ROCE. of UltraTech is statistically significant at 0.10 level (2-Tailed).

Keywords: *Motaal ratio, Liquidity, Profitability.*

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I. Introduction:

The establishment of a stable cement industry in India dates back to 1914, with the founding of the Indian Cement Company Ltd. in Porbandar, Gujarat. However, during the pre-Independence era, the sector experienced sluggish growth. Indigenous cement production was inadequate to fulfill domestic demand, necessitating government intervention to regulate prices and distribution. Additionally, to address the shortfall, substantial amounts of cement had to be imported into the country. These challenges underscored the early stages of development in the Indian cement industry and the efforts required to meet the nation's growing infrastructure needs.

Following liberalization and the implementation of various policy reforms, the Indian cement industry underwent a significant transformation as it was decontrolled. This deregulation injected momentum into the industry's growth trajectory. Cement plays a crucial role in infrastructure development and serves as a vital input for the construction sector, especially in government-led infrastructure and housing initiatives essential for the nation's socio-economic advancement. Notably, cement ranks as the second most consumed material globally.

India's cement industry stands as the second-largest producer worldwide, trailing only behind China but surpassing both the United States and Japan in production volume. Moreover, it serves as a substantial revenue source for both the central and state governments through excise duties and sales taxes. Given its strong interlinkages with sectors such as construction, transportation, coal, and power, the cement industry holds a pivotal position in the national economy.

Cement's freight sensitivity stems from its characteristic as a high-bulk, low-value commodity. Consequently, the Indian cement market is primarily regional in nature. This regionalization implies that demand-supply dynamics may vary across different regions, impacting the industry's operations at both regional and national levels. Such regional nuances necessitate a nuanced understanding of market dynamics for effective industry planning and management.

II. Review Of Literature

Numerous studies have delved into various facets of the financial performance of cement companies in India over the past two decades. Below are summaries of some notable studies conducted during this period.

Hoque (2015) in his study assessed the profitability of the cement industry in Bangladesh for 03 years from 2009-10 to 2011-12. The researcher used secondary data collected from periodical reports and published annual reports of the companies under study. The researcher analyzed the profitability of six listed cement companies using ratio analysis, correlation matrix and regression analysis. The study found that the profitability position and working capital management of the sample companies were not satisfactory during the period under study and the study also recommended that the sample companies should reduce their day sale outstanding for improving their profitability position.

Sharma et.al.(2015) conducted a study on corporate profitability and working capital management: A case study on SAIL for the period of eight years from 2006-07 to 2013-14. The objective of the study was to study working capital and profitability and to find out the relationship between profitability and working capital of SAIL during the period under study. The researchers used secondary data which were collected from audited annual reports, Ministry of SAIL, publications, journal, books and various websites. Various statistical tools and techniques like mean, standard deviation, coefficient of variation, skewness, kurtosis, correlation, and regression analysis were employed to conduct the study during the period under study. The study concluded that there was a positive relationship between working capital and profitability during the period under study.

Pan and Mal (2016) made a study on the profitability of the 12 selected companies in the Indian cement industry for the period of 10 years from 2000-01 to 2009-10. The researchers conducted the study by using simple statistical tools and techniques like simple correlation, multiple correlation, multiple regressions and rank correlation. The study was conducted by using secondary data, which were collected from Capitaline Database, related journals and websites. The study concluded that out of the 12 companies under study, Ambuja Cements captured the top-most position in terms of overall profitability.

Yadav(2017) conducted a study on profitability analysis of Indian cement industry for the period of five years from 2012-13 to 2016-17 taking ten leading cement companies based on their market capitalization. The main objectives of the study were to find out the profitability position of the select companies and to compare their performance during the period under study. The researcher took secondary data that were collected from the audited annual reports of the select companies, relevant books, journals and websites. The study was conducted with the help of simple statistical tools like mean, standard deviation and some relevant profitability ratios and Motaal's rank test was used to conduct the study. The study concluded that among the select companies, Ultratech captured the first position followed by Shree, ACC and Ambuja during the period under study.

Hemalatha and Kamalavalli (2018) studied on Profitability Analysis of Cement Companies in India of fifteen cement companies for the period of ten years from 2004-05 to 2014-15. The researchers used secondary data ,which were collected from Capitaline Plus Database . The analysis was conducted by using simple statistical tools and techniques like Mean, Coefficient of Variation, Correlation, and Multiple Regression for identifying the determinants of profitability of the cement industry. The study concluded that ROA was positively associated with GPR and NPR whereas ROE was positively associated with GPR, NPR and OPR during the period under study.

Prem Singh(2018) conducted a study on profitability analysis of three select cement companies in India for the period of five years from 2012-13 to 2016-17. The main objectives of the analysis were to examine the profitability of the select companies and to analyze the return on investment of the select companies during the period under study. The study was conducted using secondary data which were collected from audited annual reports of the select companies, relevant books, journals, and websites. Simple statistical tools and techniques like average, standard deviation, CV and Du Pont Approach were applied to conduct the study. The study showed that Ultratech captured the first rank among the select companies and CCI captured the lowest rank during the period under study.

Kothari (2019) conducted a study on liquidity and profitability of cement corporation of India limited for the period of five from 2013-14 to 2017-18. The main objectives of the were to measure liquidity and the profitability of the select company and to assess the financial performance of the select company during the period under study. The data used in the study were collected from annual report of the select company and from related journals, books, and websites. The study was conducted by using simple statistical tools and techniques. ANOVA technique was applied to check the overall financial position of the select company during the period under study. The study concluded that the short term solvency position of the company was not satisfactory and the impact of sales on liquidity, profitability and solvency position of the company was significant during the period under study.

Srinivas(2020)conducted a study on financial performance of select cement companies in India. The researcher selected five cement companies based on their market capitalization as on 06.08.2019 for the period of five years from 2014-15 to 2018-19. The data used in the study were collected from annual reports of the select companies, relevant journals, and websites and from relevant research papers. The study was conducted using simple statistical tools and techniques like mean, S.D, covariance and ANOVA technique. The study

found a significant difference in NPR, GPR, QR, CR, and DER in select companies during the period under study.

Research Gap:

Numerous studies in India have investigated various aspects concerning liquidity and its correlation with the profitability of cement companies over recent years, as evidenced by the literature review. However, the predominant analytical methods employed in these studies include panel regression analysis, multiple regression analysis, and ordinary least squares (OLS) regression. Notably, none of these studies have endeavoured to explore the relationship between the comprehensive rank of liquidity (Motaal) and ROCE (Return on Capital Employed). In response to this gap, I have selected a sample comprising ten cement companies for examination during the study period.

III. Objectives Of The Study:

1. To assess the Motaal Comprehensive Liquidity Rank of each company during the study period
2. To establish the rank order of ROCE (Return on Capital Employed) for the selected companies throughout the study period
3. To explore the relationship between Motaal Rank (Liquidity) and ROCE (Profitability) among the selected companies over the study period

IV. Research Methodology

Collection of data:

The study is an empirical and analytical based on the secondary data that are collected from the audited annual reports of the selected cement companies in India during the period under study, Capitaline Database, money control.com, relevant journals, books, periodicals and websites of the select companies.

Sample size:

There are about 46 cement companies in India among them only ten companies are selected in my study based on their market capitalization and availability of data as on 31.03.2024.

The companies are

- 1)Prism Johnson
- 2) Shree Cement
- 3)Ambuja Cement
- 4)India Cement
- 5)Ultra Tech Cement
- 6)ACC
- 7)Ramco Cement
- 8)Birla
- 9)Hill
- 10)Heidelberg.

Period of study:

The period of study covers eleven years from 2009-10 to 2019-20

Limitation of the study:

- 1)The study spans only for a period of eleven years.
- 2)The study utilizes secondary data which are collected from sources such as money control and other relevant platforms.
- 3)The study is confined to ten cement companies, presenting a significant limitation in drawing conclusive findings.

Methodology:

Motaal proposes a comprehensive method for assessing a firm's liquidity position, advocating for a ranking process to derive a thorough measure of liquidity. This approach involves combining three key ratios into a point score, with the aim of providing a holistic evaluation of liquidity. Here's how the process works:

Combining Ratios: Motaal suggests integrating three liquidity ratios to form a point score. These ratios are :
Working Capital to Current Asset Ratio (MOT1)
Stock to Current Assets Ratio (MOT2)

Liquid Resources to Current Asset Ratio (MOT 3)

Ranking: The ratios are ranked based on their perceived importance in assessing liquidity. Specifically, higher values of the working capital to current asset ratio and liquid resources to current asset ratio are considered favourable for liquidity, while lower values of the stock to current assets ratio are deemed advantageous.

Point scoring : Each firm's ratios are ranked over a period of time according to their order of preference. Then, a point score is assigned based on these rankings. The principle guiding this scoring is that lower points indicate a more favourable liquidity position, and vice versa.

By combining these liquidity ratios and assigning point scores based on their rankings, Motaal's method offers a comprehensive framework for evaluating a firm's liquidity position over time. This approach provides insights into the firm's ability to meet its short-term obligations and manage its liquidity effectively, thereby aiding in financial decision-making and risk assessment.

To conduct the study, various statistical tools such as averages, standard deviations, and percentages of select ratios are utilized. The Spearman Rank Correlation Coefficient is employed to determine the rank correlation between the Motaal liquidity Rank and the Rank of ROCE, assessing whether they are statistically significant. Additionally, the Shapiro-Wilks W test is conducted to assess the normality of the data, revealing that they are normally distributed. These statistical analyses provide crucial insights into the relationship between liquidity rank and ROCE rank, helping to ascertain their significance and providing a foundation for further interpretation of the study's findings.

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