A STUDY ON FINANCIAL PERFORMANCE OF CEMENT INDUSTRY WITH SPECIAL REFERENCE TO ACC LIMITED

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ABSTRACT: In India, the cement industry is the second most consumed material on the planet. 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.

ACC (ACC Limited) is India's foremost manufacturer of cement and concrete. ACC's operations are spread throughout the country with 17 modern cement factories, more than 40 Ready mix concrete plants, 21 sales offices, and several zonal offices. ACC has a unique record of accomplishment of innovative research, product development and specialized consultancy services.

The study is about the financial performance of the ACC LIMITED. The primary objective is to study the financial performance of the cement industry and the secondary objectives are to evaluate the profitability, liquidity and the operational position of the industry. The secondary data is used for the research. It has been collected from the company's annual report and balance sheet. Tools such as Ratio analysis and trend analysis have been used for analyzing the data. The results of the study indicate that the company's liquidity position and solvency are in comfortable position.

INTRODUCTION:

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 worldwide 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.

Financial analysis refers to the purpose of examining minutely and evaluating the financial condition and the results of operations (i.e., the performance) of a business enterprise. In other words, financial analysis is an in-depth study of a firm's financial position (i.e., capital, assets and liabilities of a firm at a point of time) and its financial performance (i.e., income, profitability, solvency, earnings per share, dividend payout etc.,) over a period.

Ratio analysis is a technique of analysis and interpretation of financial statement. It is the process of establishing and interpreting various ratios for helping in making certain decisions. It is the only means of better understanding of financial strengths and weakness of a firm.

There are various ratios, which can be calculated from the information given in the financial statements, but in the study, we select the appropriate data and calculate only a few appropriate ratios. The important ratios taken are liquidity ratio, long-term solvency activity and profitability ratios.

NEED OF THE STUDY

Financial statement analysis is used to identify the trends and relationships between financial statement items. Both internal management and external users (such as analysts, creditors, and investors) of the financial statements need to evaluate a company's profitability, liquidity, and solvency. The most common methods used for financial statement analysis are trend analysis, common-size statements, and ratio analysis. These methods include calculations and comparisons of the results to historical company data, competitors, or industry averages to determine the relative strength and performance of the company being analyzed.

OBJECTIVES OF THE STUDY

Primary Objective

- To study the financial performance of cement industry with reference to ACC LIMITED.

Secondary Objectives

- To analyze the profitability, liquidity and operational position of the industry.
- To examine the financial structure of the company.

SCOPE OF THE STUDY

Financial analysis is the process of determining the operating and financial structure of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiencies or performance of firm’s management as reflected in the financial records and reports.

LIMITATIONS OF THE STUDY

- The results of the study are relevant only for ACC LIMITED and it may not be used in any other company.

- The result is applicable only to Cement Industry.
- Due to the limited period available in the balance sheet, the study has been confined for the period of 2011-2015

REVIEW OF LITERATURE

A review of past studies and theory relating to the problem of research helps not only definition of concepts, problem focus, objectives and hypotheses, but also the choice of tools of analysis with attention to their assumption and limitation. The several past studies related to cement industry and methods of evaluating its performance and some of the reviews are:

Petia (2004) discussed in his study about **performance of India's non-financial corporate sector** since 1989, by using firm level data and evaluated its financial vulnerabilities. He has found that promising trends in liquidity, profitability and leverage of the sector emerged in the early 1990s; he has experienced a reversal after 1996. Nevertheless, most indicators were still at comfortable levels, and there was evidence of improvement in 2002. The study also revealed that a number of firms still face problems servicing their debt obligations, posing a risk to lenders. He has concluded that aggregate interest 37 coverage of the corporate sector indicated that potential non-performing loans of the corporate sector remain high and this underscores the need of the corporate sector remain high. He suggested this underscores the need for close monitoring of the corporate sector in the future.

Jayant Sathaye (2005) the study revealed that, the Indian cement industryhas grown rapidly over the past few decades and there have been significant investments in new cement kilns and associated production equipment. This has led to a situation where India's cement industry in made up of both some of the world's most energy-inefficient plants as well as some of the world's best practice facilities. The challenge for the Indian cement industry is to modernize or phase out the older, inefficient plants while acquiring the best possible cement production technology as production inevitably expands in the coming decades.

RESEARCH METHODOLOGY

Research Design

A research design is the arrangement of condition for collection and analysis data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research design is the conceptual structure with in which research in conducted. It constitutes the blueprint for the collection measurement and analysis of data. Research design includes and outline of what the researcher will do form writing the hypothesis and it operational implication to the final analysis of data. A research design is a frame work for the study and is used a guide in collection and analyzing the data. It is a strategy specifying which approach will be used for gathering and analyzing the data.

The research applied in the study is Analytical Research Design. 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.

Analytical research design

Analytical research is a specific type of research that involves critical thinking skills and the evaluation of facts and information relative to the research being conducted.

Sources of Data

Only secondary data are used for analyzing the financial position of ACC LIMITED.

Secondary data

The data of the company has been collected from the annual reports and balance sheet given by the company. The data has been referred from the website and books.

Tools for Analysis

- **Ratio analysis:**

1. Liquidity ratio
2. Profitability ratio
3. Solvency ratio

- **Statistical tools: Trend analysis**

ANALYSIS AND DISCUSSION

Current Ratio

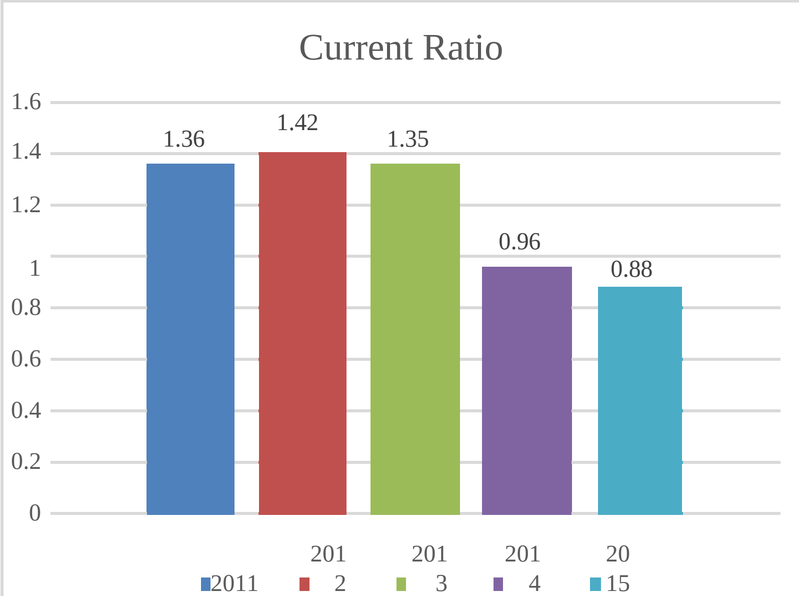
The current ratio indicates a company's ability to pay its current liabilities from its current assets. This ratio is one used to quickly measure the liquidity of a company.

Current Ratio

Ratios	Formula	2011	2012	2013	2014	2015
Current Ratio	Current Asset ÷ Current Liability	1.36	1.42	1.35	0.96	0.88

Interpretation

From the above table, it is understood that the current ratio of the company ranges minimum of 0.88 during the year 2015 and maximum of 1.42 during the year 2012. The ideal norm is 2:1 of current ratio which means that one rupee of current liability is approximately covered by the two rupees of current assets and it also depicts more consistency level.



Quick Ratio

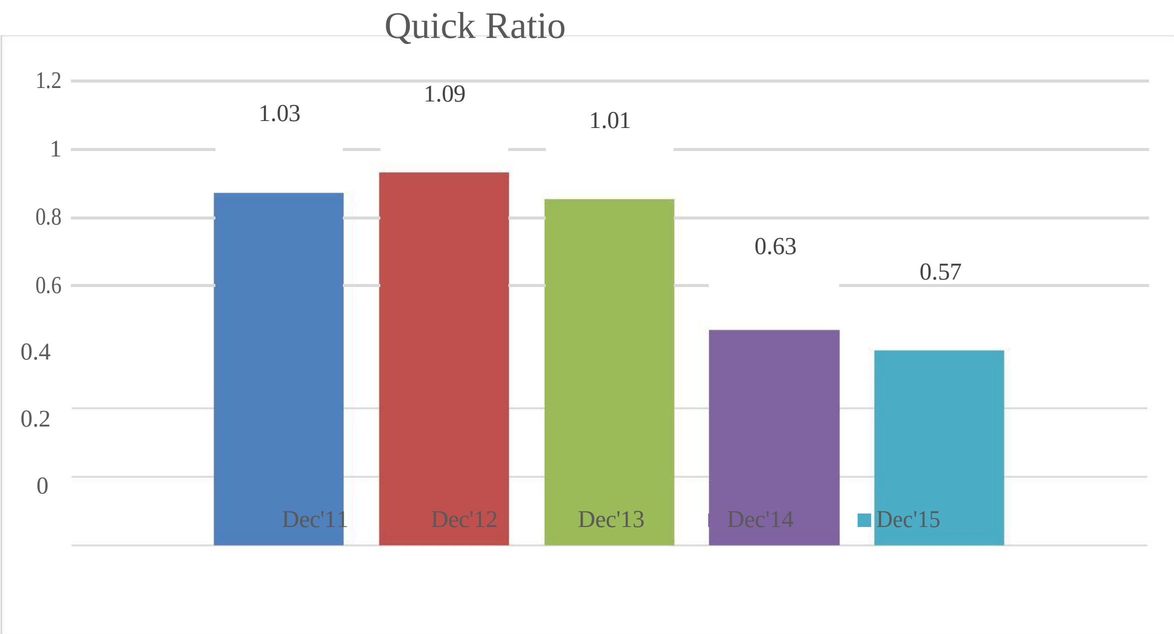
The quick ratio is an indicator of a company's short-term liquidity. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets.

Quick Ratio

Ratios	Formula	2011	2012	2013	2014	2015
Quick Ratio	Current Asset-Inventory÷ Current Liability	1.03	1.09	1.01	0.63	0.57

Interpretation

From the above table, it is understood that the quick ratio of the company ranges minimum of 0.57 during the year 2015 and maximum of 1.09 during the year 2012.The ideal norms of quick ratio is 1:1 which means that one rupee of current liability is approximately covered by the one rupee of liquid asset, and it also depicts more consistency level.



Inventory Turnover Ratio

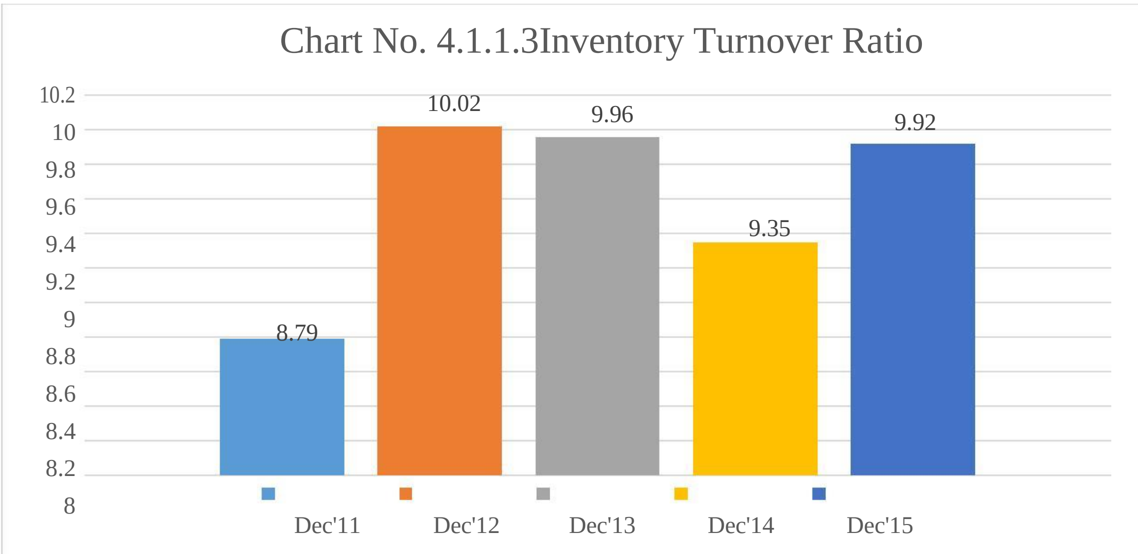
Inventory turnover is a ratio showing how many times a company's inventory is sold and replaced over a period of time. The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand.

Inventory Turnover Ratio

Ratios	Formula	2011	2012	2013	2014	2015
Inventory Turnover Ratio	Cost of Goods Sold ÷ Average of Inventory	8.79	10.02	9.96	9.35	9.92

Interpretation:

From the above table, it is understood that the inventory turnover ratio of the company ranges from maximum of 10.02 during the year 2012 and minimum of 9.92 during the year 2015. It reflects that the company is in a consistency level.



Current Liability

Current liabilities are a company's debts or obligations that are due within one year, appearing on the company's balance sheet and include short term debt, accounts payable, accrued liabilities and other debts.

Current Liability

Data	2011	2012	2013	2014	2015
Current Liability	100	103.84	99.64	115.46	116.21

Interpretation: There is an increase in current liability. This is not a good sign for the firm.

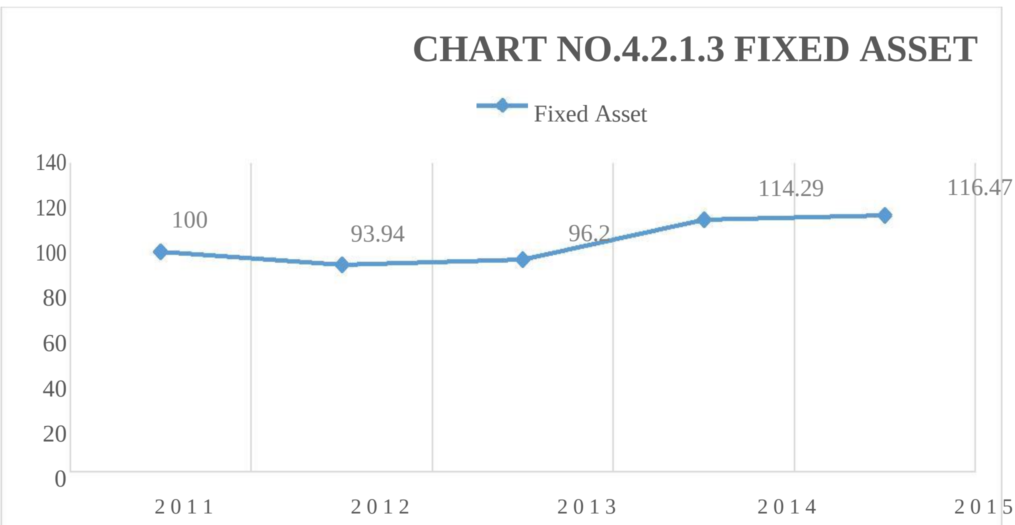
Fixed Asset

Fixed asset is a long-term tangible piece of property that a firm owns and uses in the production of its income and is not expected to be consumed or converted into cash any sooner than at least one year's time.

Fixed Asset

Data	2011	2012	2013	2014	2015
Fixed Asset	100	93.94	96.2	114.29	116.47

Interpretation: Although there is an increase in fixed asset during the last five years, it is comparatively high than the increase in current asset.



FINDINGS

- The ideal current ratio is 2:1 and the study period of current ratio of the company is satisfactory.
- Quick ratio of the company is satisfactory as it is up to the standard norm 1:1. The firm has the ability to meet its current liability.
- In the inventory turnover ratio, it indicates the number of times stock is turned during the year. Thus, the ratio of the firm is much satisfactory.

SUGGESTIONS

The financial performance of ACC LIMITED, doing the study period (2011-2015) is in satisfactory position, with the available data in the annual report, is able to give opinion with regard to the company's performance from the researchers point of view.

- The current asset and fixed asset may be utilized to optimum level.
- The company can increase its profit margin.
- The company may try to maintain good cash position. o The effective utilization of sales may be improved.

CONCLUSION

The analysis of financial performance of ACC LIMITED is performed in this project report. The liquidity position of the company is satisfactory hence, the company can meet out its short –term liabilities. The solvency ratios indicate that the company is also strong in solvency as there may not be a problem in fulfilling their long-term liabilities. However the profitability position is not that much attractive. The company may improve its profitability by measures like cost reduction, control and modernization of the production. Over all the ACC LIMITED is efficient as far as per the performance. The firm should consolidate to become strong, vibrant and also, they have to concentrate on export market besides maintaining a good supply chain management (SCM) strategy.

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