

Liquidity Analysis of Selected Cement Companies: A Comparative Study from the Year 2011-12 to 2015-16

Radha Vyas

Assistant Professor

D. R. Patel & R. B. Patel Commerce College & Bhaniben C. Patel BBA College, Bharthana (Vesu), Surat-395017, Gujarat
Affiliated to Veer Narmad South Gujarat University

Dr. Ashish K. Desai

Head of the Department, Accountancy

D. R. Patel & R. B. Patel Commerce College & Bhaniben C. Patel BBA College, Bharthana (Vesu), Surat-395017, Gujarat
Affiliated to Veer Narmad South Gujarat University

Abstract:

Trend analyses as well as ratio analysis have been applied to analyze the financial statement to know the Liquidity position of Selected Cement Companies, three companies namely Ambuja (AMJ), Ultratech (U.T) and Indian (IND) have been selected. Five years data has been considered from the year 2011-12 to 2015-16. From the analysis, it has been concluded that the liquidity for the cement companies is not uniform as they change over years.

Key Words: Trend Analysis, Ratio Analysis, Liquidity Ratio

1. INTRODUCTION

The Indian cement industry has attracted huge investments, both from Indian as well as foreign investors. India has a huge potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent major such developments is 98 smart cities are expected to provide a major boost to the sector.

Expecting such developments in the country and aided by suitable government foreign policies, several foreign players such as Lafarge-Holcim, Heidelberg Cement, and Vicat have invested in the country in the recent past. A significant factor which supports the growth of this sector is the ready availability of the raw materials for making cement, such as limestone and coal (Source: <https://www.ibef.org/industry/cement-india.aspx>)

In accounting, the term liquidity is defined as the ability of a company to meet its financial obligations as they come due. The liquidity ratio, then, is a computation that is used to measure a company's ability to pay its short-term debts. There are three common calculations that fall under the category of liquidity ratios. The current ratio is the most liberal of the three. It is followed by the acid ratio, and the cash ratio. These three ratios are often grouped together by financial analysts when attempting to accurately measure the liquidity

of a company. Bankruptcy analysts and mortgage originators use liquidity ratios to evaluate going concern issues, as liquidity measurement ratios indicate cash flow positioning.

2. LITERATURE REVIEW

To check liquidity position, most of the authors have considered Current Ratio (C.R.), Quick Ratio (Q.R.) and Return on Assets (R.O.A.) (Khan Mohmad Mushtaq and Safiuddin Syed Khaja, 2016). Aqeel Rasool Janjua et. al. (2016) have also used cash ratio for the same purpose.

3. PROBLEM STATEMENT

Investors often take a close look at liquidity ratios when performing fundamental analysis on a firm. Since a company that is consistently having trouble meeting its short-term debt is at a higher risk of bankruptcy, liquidity ratios are a good measure of whether a company will be able to comfortably continue as a going concern. Any type of ratio analysis should be looked at within the correct context. For instance, investors should always look at a company's ratios against those of its competitors, its sector and its industry and over a period of several years. And hence here to get better idea liquidity analysis of 3 major cement companies, viz., Ambuja Cement, Ultratech and India Cement are performed.

4. SIGNIFICANCE OF THE STUDY

This study will be helpful to the management as well as stakeholders to get an idea of a company's health and liquidity position. It will be helpful them to make a decision about the investment in the company.

5. OBJECTIVES OF THE STUDY

1. To study the liquidity ratios of selected cement companies
2. To compare the liquidity position of selected cement companies.

6. HYPOTHESIS

H₀: There is no significant difference in the liquidity position among the cement companies.

H₁: There is a significant difference in the liquidity position among the cement companies.

7. RESEARCH METHODOLOGY

To compare liquidity position of selected cement companies, five years data from the year 2011-12 to 2015-16 has been taken from the annual report of the company. The data has been analyzed by descriptive statistics and One-way Anova test. The liquidity position of cement companies has been analyzed with special reference of Current Ratio, Quick Ratio, Inventory Turnover Ratio, Dividend Payout Ratio (NP) (%), Dividend Payout Ratio (CP) (%), Earnings Retention Ratio (%) and Cash Earnings Retention Ratio (%).

8. SCOPE OF THE STUDY

1. This study is limited to liquidity analysis only.
2. This study has covered five years data only.

9. ANALYSIS AND INTERPRETATION

9.1 Description of Selected Ratios

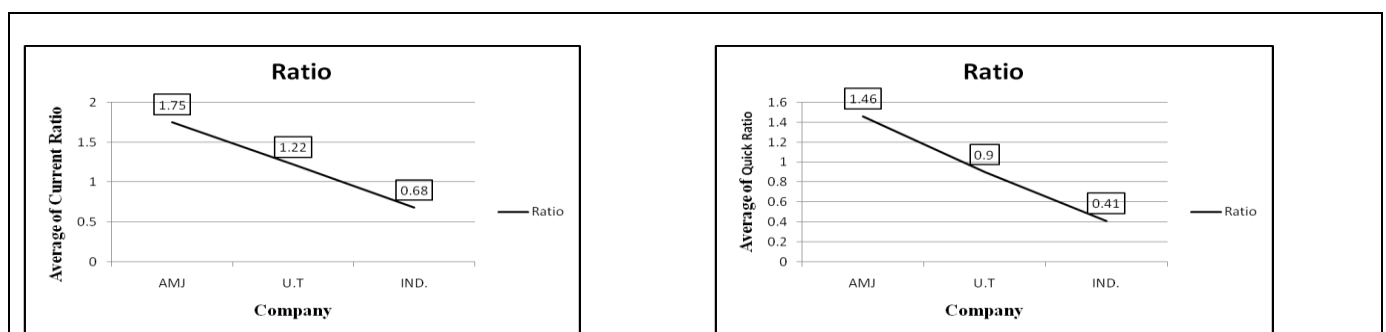
Year wise ratios with the average of the selected cement company have been seen in the following table.

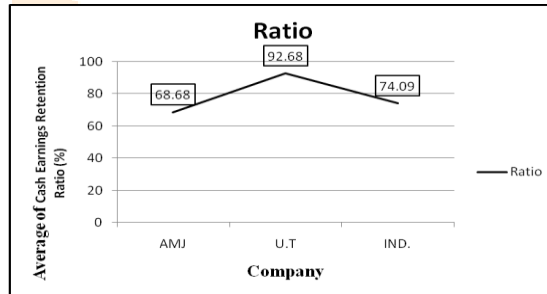
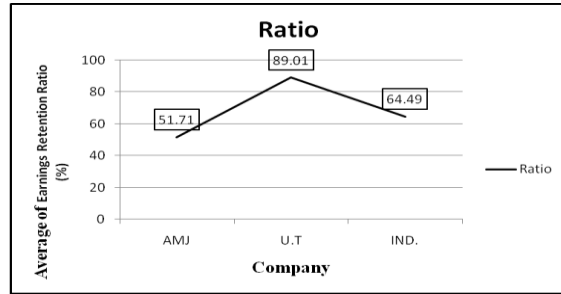
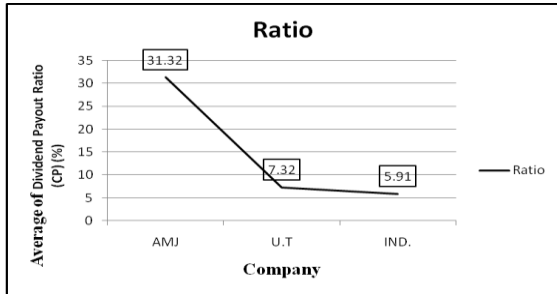
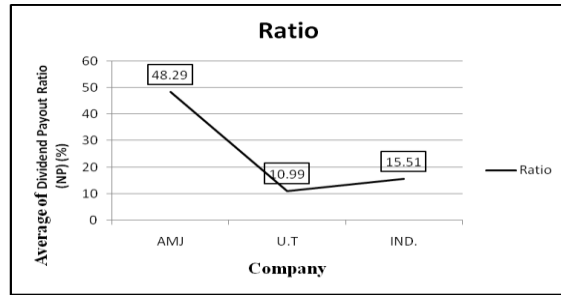
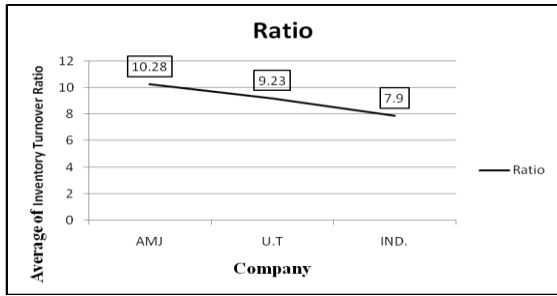
The averages of all the ratios have been shown in the Table No. 1.1 as follows.

Table No. 1.1 Description of Ratios

Ratio	Company	Year					Average
		2012	2013	2014	2015	2016	
Current Ratio	AMJ	1.75	1.95	1.9	2.03	1.14	1.75
	U.T	1.25	1.57	0.9	0.82	1.55	1.22
	IND.	0.65	0.62	0.72	0.68	0.73	0.68
Quick Ratio	AMJ	1.43	1.62	1.62	1.75	0.88	1.46
	U.T	0.88	1.16	0.59	0.6	1.27	0.90
	IND.	0.43	0.38	0.43	0.41	0.41	0.41
Inventory Turnover Ratio	AMJ	9.89	9.81	11.23	10.57	9.89	10.28
	U.T	8.59	8.56	8.34	9.94	10.74	9.23
	IND.	9.27	8.06	7.29	7.1	7.76	7.90
Dividend Payout Ratio (NP) (%)	AMJ	42.77	42.97	51.76	53.8	50.15	48.29
	U.T	9.29	11.5	12.26	11.98	9.92	10.99
	IND.	37.56	0	0	22.28	17.72	15.51
Dividend Payout Ratio (CP) (%)	AMJ	29.79	31.17	38.61	30.31	26.73	31.32
	U.T	6.85	7.72	7.84	7.52	6.69	7.32
	IND.	13.79	0	0	8.63	7.13	5.91
Earnings Retention Ratio (%)	AMJ	57.23	57.03	48.24	46.2	49.85	51.71
	U.T	90.71	88.5	87.74	88.02	90.08	89.01
	IND.	62.44	0	100	77.72	82.28	64.49
Cash Earnings Retention Ratio (%)	AMJ	70.21	68.83	61.39	69.69	73.27	68.68
	U.T	93.15	92.28	92.16	92.48	93.31	92.68
	IND.	86.21	0	100	91.37	92.87	74.09

Figure No. 1 Average of Ratios





Interpretation

From the above Table No. 1.1, it can be said that most of the ratios are having fluctuating trend for each cement company except inventory turnover ratio.

It has been found that most of the ratios except Earnings Retention Ratio (%) and Cash Earnings Retention Ratio (%) of Ultratech remain higher than Ambuja and India Cement. Whereas all the ratios of India Cement remain lower than Ambuja Cement and Ultra Tech Cement companies.

9.2 One-Way Anova Test

From the description of all the liquidity ratios, difference has been found out. But to know the significance level of this difference, one-way Anova test has been run. The results are shown as follows in Table No. 1.2;

Table No. 1.2 Ratios

Ratios	Standard Deviation		
	AMJ	UT	IND
Current Ratio (Proportion)	0.36	0.35	0.05
Quick Ratio (Proportion)	0.34	0.31	0.02
Inventory Turnover Ratio (Times)	0.61	1.05	0.86
Dividend Payout Ratio (NP) (%)	5.11	1.31	15.95
Dividend Payout Ratio (CP) (%)	4.40	0.52	5.93

Earnings Retention Ratio (%)	5.11	1.31	38.46
Cash Earnings Retention Ratio (%)	4.40	0.52	41.71

Interpretation

Table no. 1.2 shows that the result of Standard deviation for Current Ratio and Quick Ratio was not so much different for AMJ (0.36 and 0.34) and UT (0.35 and 0.31) whereas it remains (0.05 and 0.02) for IND.

The standard deviation for Earnings Retention Ratio and Cash Earnings Retention Ratio shows vast difference in result which is AMJ (5.11 and 4.40) and UT (1.31 and 0.52) while it is (38.46 and 41.71) for IND. The standard deviation for Dividend Payout Ratio (NP) also shows huge difference like for AMJ (5.11); for UT (1.31) and for IND (15.95).

Hypothesis Testing

H₀: There is no significant difference in the liquidity position among the cement companies.

H₁: There is a significant difference in the liquidity position among the cement companies.

Ratio	Sum of Squares	df	Mean Square	F	Sum of Squares	Sig.
Current Ratio	Between Groups	2.884	2	1.442	17.026	.000
	Within Groups	1.016	12	.085		
	Total	3.900	14			
Quick Ratio	Between Groups	2.750	2	1.375	19.070	.000
	Within Groups	.865	12	.072		
	Total	3.615	14			
Inventory Turnover Ratio	Between Groups	14.257	2	7.128	9.632	.003
	Within Groups	8.881	12	.740		
	Total	23.137	14			
Dividend Payout Ratio (NP) (%)	Between Groups	4143.560	2	2071.780	22.010	.000
	Within Groups	1129.561	12	94.130		
	Total	5273.121	14			
Dividend Payout Ratio (CP) (%)	Between Groups	2039.455	2	1019.728	55.743	.000
	Within Groups	219.521	12	18.293		
	Total	2258.976	14			
Earnings Retention Ratio (%)	Between Groups	3593.160	2	1796.580	3.577	.006
	Within Groups	6027.161	12	502.263		
	Total	9620.321	14			
Cash Earnings Retention Ratio (%)	Between Groups	1584.389	2	792.194	1.351	.029
	Within Groups	7037.521	12	586.460		
	Total	8621.910	14			

Interpretation

The test of one-way ANOVA at 0.05 significance level under this aspect indicated a significant difference between cement companies liquidity positions since p value is less than .05, it indicates that the null hypothesis is rejected and the alternative hypothesis is accepted.

10. CONCLUSION

This study intended to assess the liquidity position of cement companies with special reference of Current Ratio, Quick Ratio, Inventory Turnover Ratio, Dividend Payout Ratio (NP) (%), Dividend Payout Ratio (CP) (%), Earnings Retention Ratio (%) and Cash Earnings Retention Ratio (%). Statistical analysis was done using one way Analysis of Variance (ANOVA) whereby the hypothesis was tested. Analysis indicated that the liquidity for the cement companies is not uniform as they change over years. Moreover, it has been found that most of the ratios are having fluctuating trend for each cement company except inventory turnover ratio.

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