ASSETS PERFORMANCE OF THE SELECT CEMENT COMPANIES IN TAMILNADU

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ABSTRACT

Indian cement industry is the second largest cement industry in the world. The paper attempts to examine the performance and management of assets of the select cement companies in Tamilnadu with the support of Trend analysis. Data employed in this study are all secondary in nature which is frequently inspected by Institute of Charted Accountants of India and Security Exchange Board of India. The pooled data collection is to assess the impact of regulation on performance of asset of cement companies in Tamil Nadu over the time horizon viz., 1996-97 to 2005-06. The variables used in this study are Land, plant, stock, cash and debtors. The authors have chosen four cement companies in Tamilnadu and using a statistical technique as Trend analysis with the aid of Minitab software version 15. On an analysis it is found that cement plants taken first study have procured land not only for plant construction but also mining lands keeping the future expansion/new plant on a long term basis. It is natural for Tamil Nadu cement factories to hold higher inventory of limestone because of various factors involved in mining operation and location of the mining land from the factory. As found in the Trend Analysis the cement plants had changed their marketing policy from “Cash and Carry” to credit sales. This change in policy of offering credit to large consumers is a major cause for higher debtors balance in the recent years. The cement plants in Tamil Nadu in their efforts to increase their market share started offering credit to the consumers especially for real estate builders which has resulted in low cash balance. It is expected that change in cement customer mix will result in a comfortable cash balance in future. It is found that so many small cement industries have been closed because of improper cash management. This has resulted in cash crunch in Cash Trend Analysis. The consumption of cement by government increases, this trend may be expected to decline.
I. INTRODUCTION

According to a report by Department Related Parliamentary Standing Committee on Commerce (2011) Cement industry plays a vital position in the infrastructural development of the country. Infrastructural development obviously gives rise to increased demand for cement. A variety of construction activities undertaken by the Central Government, State Governments, Public Sector Undertaking and other organisations, including private sector generate huge demand for cement. Indian Cement Industry is now the second largest cement producer in the world, next only to China. There is an interlinking relation between cement consumption and the growth of economy. The principal raw materials for cement are lime stone, gypsum and sand. Many companies had got limited reserves of lime stone which may last only for another 15-20 years. Another raw material, gypsum, due to its shortage is imported from abroad. Similarly, natural sand is obtained through mining, which leads to soil erosion. Cement industry is an energy-intensive sector. All major operations of cement manufacturing critically hinge on the availability of power. Power supply from grid has been erratic and inadequate and cement units are forced to set up their own captive power plants. This adds to the cost of production. Cement industry depends heavily on coal for manufacturing cement. Therefore, adequate and sustained availability of proper quality of coal is of paramount importance for the Indian cement industry. Coal India Ltd. (CIL) and Singareni Colleries Co. Ltd. (SCCL) are the two indigenous coal suppliers for the cement industry through the system of linkage and Fuel Supply Agreement. The additional requirement of coal had to be procured at a huge cost from various other sources like purchase from open market, imports, use of pet coke etc. to supplement the requirement. Cement is a continuously processed product and, therefore, processing cost is followed for maintenance of cost records. Direct costs are absorbed to various costs centres and indirect costs centres are apportioned to different costs centres on appropriate basis. Indian cement industry appears to be the highest taxed cement industry among the selected countries such as China/ Hong Kong, Bangladesh, Bhutan, Indonesia, Pakistan, Nepal, Singapore, Sri Lanka, Thailand and Vietnam. This makes prices of Indian cement non-competitive vis-à-vis other countries in international market. The cement industry was de-licensed under the Industrial (Development and Regulation) Act, 1951 and the price and distribution control of cement has been removed since 1989. It was also stated that 'cement' has been deleted from the List of Essential Commodities on 5 February, 2002. Thus, presently, the prices of cement are determined by the market forces. Hence there is a need to analyse the performance of cement industry, in this research paper the authors made an attempt to analyse the performance and management of assets of the select cement companies in Tamilnadu with the aid of Trend analysis.

II. REVIEW OF LITERATURE

There are few literature related to the asset management in cement industry. In this research paper the authors review related literature relating the current asset management. Khan and Darrab (2010) reported that the purpose of maintenance is not only to upkeep
the plant machinery and equipments preventing from failure and breakdowns, increasing reliability, maintainability, and availability of the operating system for maximizing production, but also to improve quality and boost higher productivity through improving capacity, faster and more dependable throughput, reducing inventory, and lowering operating cost. A study by Mohammad Alipour (2011), under the title "Working Capital Management and Corporate Profitability: Evidence from Iran", the results of the research show that in the studied companies, there is a significant relation between working capital management and profitability and working capital management has a great effect on the profitability of the companies and the managers can create value for shareholders by means of decreasing receivable accounts and inventory. A study by Talat Afza and Mian Sajid Nazir (2011), under the title "Working Capital Management Efficiency of Cement Sector of Pakistan", the aim of this paper is to test the speed of achieving the target level of efficiency by an individual firm during the period of study using industry norms as the target level of efficiency. Findings of the study indicate that the cement sector as a whole did perform well during the study period. A study by Dr. Dharmendra, S., Mistry. The Indian cement industry is one of the oldest industries. The purpose of their study is to analyse the financial data of 28 out of 36 listed public companies of Indian cement industry for the financial period 2004-05 to 2008-09 with a view to examining impact of determinants such as Total Assets, Liquidity, Inventory Turnover Ratio, Debt-Equity Ratio and Operating Expenses Ratio on the Ratio of Return on Capital Employed thereof with the help of techniques of correlation and regression analysis. The study found that Liquidity is closely related with the profitability of the Indian Cement Industry as compared to the Total Assets, Inventory Turnover Ratio, Debt-Equity Ratio and Operating Expenses Ratio. A study by Mamoun M. Al-Debi'e (2011), under the title, "Working Capital Management and Profitability: The Case of Industrial Firms in Jordan", the aim of this paper is to examining the relationship between profitability and working capital management measures for industrial companies listed on Amman Stock Exchange in Jordan during the period 2001-2010. The results show that less profitable companies wait longer to sell their products, to collect credit sales, and to pay their supplies of goods.

III. METHODOLOGY

The pooled data collection is to assess the impact of regulation on performance of cement companies in Tamil Nadu over the time horizon viz., 1996-97 to 2005-06. The approach to macroeconomic variables is time series. The design of the study is based on the secondary sources of information on financial data. The present study includes India Cements Limited (ICL), Dalmia Cement (Bharat) Limited (DCL), Madras Cements Limited (MCL) and Chettinadu Cement Corporation Limited (CCCL). Data were analyzed by means of Trend analysis for evaluating the performance of asset of select cement companies with the support of Minitab software version 15.
IV. RESULTS AND DISCUSSION

Figure 1: Trend Analysis Plot of land for the Sample Total of Tamil Nadu Cement Industry

Trend analysis figure 1 reveals the trends in the Land of cement industry in Tamil Nadu. The trend plot that shows the original data, and the fitted trend line, the output also displays the fitted trend equation $Y_t = 11450 + 6581t$ and three measures help to determine the accuracy of the fitted values: 8, 3240, and 1576112. The trend model appears to fit well to the overall trend. Trend Analysis in figure (1) reveal the positive linearity in trend as far as land is concerned. Cement industry in Tamilnadu, the value of land utilized for erecting plant and machinery storage and the requirement for expansion show a market increase in the last ten years which is almost four times. On an analysis it is found that cement plants taken first study have procured land not only for plant construction but also mining lands keeping the future expansion/new plant on a long term basis. For example DCL is planning to put a new plant near Ariyalur for which land for constructing machinery and mining lime stones around Ariyalur. Similarly other cement plants have also purchase such lands. Once the new plant and machinery comes into production the utilization of this land will improve.

Figure 2: Trend Analysis Plot of plant for the Sample Total of Tamil Nadu Cement Industry
Trend analysis figure 2 reveals the trends in the plant of cement industry in Tamil Nadu. The trend plot that shows the original data, and the fitted trend line, the output also displays the fitted trend equation \( Y_t = 46599 + 26015^*t \) and three measures help to determine the accuracy of the fitted values: 7, 12166, and 293930023. Trend Analysis in figure (2) reveal the positive linearity in trend as far as plant is concerned. It is obvious from the trend that the funds invested in plant and machinery not only shows an increasing trend but also increases there fold. It is found that all the four cement plants taken for the study have undertaken capacity increase in these existing plants and also place orders for new plant and machineries to be erected in new directions. When they had already purchased land not only for erecting plant and machineries but also for mining. Some of them have already erected plant and machinery which are expected to be commissioned shortly and few others are in the process of erecting equipments which perhaps will take few more months. The plant manufacturers take not less than twenty four months to supply the entire equipment depending on the design and first come first served basis.

Figure 3: Trend Analysis Plot of stock for the Sample Total of Tamil Nadu Cement Industry

Trend analysis figure 3 reveals the trends in the stock of cement industry in Tamil Nadu. The trend plot that shows the original data, and the fitted trend line, the output also displays the fitted trend equation \( Y_t = 22679 + 3002^*t \) and three measures help to determine the accuracy of the fitted values: 9, 3740, and 22664515. Trend Analysis in figure (3) reveal the positive linearity in trend as far as stock is concerned. This cannot be considering to the high because in most of the cases the inventory is in the form of raw material (lime stone, coal). It is natural for Tamil Nadu cement factories to hold higher inventory of limestone because of various factors involved in mining operation and location of the mining land from the factory. Coal has been imported from Andra Pradesh and West Bengal which leads to holding higher inventory of coal. Coal is the only fuel to manufacture the cement and it has to be obtained from West Bengal, Andra Pradesh involving much longer lead time.
Trend analysis figure 4 reveals the trends in the Cash of cement industry in Tamil Nadu. The trend plot that shows the original data, and the fitted trend line, the output also displays the fitted trend equation $Y_t = 9314 - 133.237^t$ and three measures help to determine the accuracy of the fitted values: 11, 966, and 1142275. Trend Analysis Plot in figure (4) reveal the positive linearity in trend as far as cash is concerned. The Trend Analysis of cash balance of the closer year in respect of cement industry taken for the study, show a small decline in the last ten years, though it is not an alarming situation an adequate cash balance will definitely improve overall efficiency. An analysis of their financial results show the change in policy of the cement industries in marketing cement was the main reason for reduction in their cash balance. Though there is an uptrend in demand for cement, the cement plants in Tamil Nadu in their efforts to increase their market share started offering credit to the consumers especially for real estate builders which has resulted in low cash balance. It is expected that change in cement customer mix will result in a comfortable cash balance in future.

Trend analysis figure 5 reveals the trends in the plant of cement industry in Tamil Nadu. The trend plot that shows the original data, and the fitted trend line, the output also displays the fitted trend equation $Y_t = 5230 + 2482^t$ and three measures help to determine the accuracy of the fitted values: 17, 2751, and 12296041. Trend analysis Plot in figure (5) reveals the positive linearity in trend as far as Debtors is concerned. The trend of trade debtors at the closer of the year in respect of cement plants under study shows steep increase in the last ten years. As found in the Trend Analysis the cement plants had changed their marketing policy from “Cash and Carry” to credit sales. In addition direct marketing to a few select consumers like real estate developers is undertaken by the cement factories, by affecting credit to these consumers. Their earlier policy of selling cement through dealers is changed in the recent past and major consumers are focused by these cement plants for direct selling. This change in policy of offering credit to these large consumers is a major cause for higher debtors balance in the recent years.
V. FINDINGS AND CONCLUSION

On an analysis it is found that cement plants taken first study have procured land not only for plant construction but also mining lands keeping the future expansion/new plant on a long term basis. It is obvious from the trend that the funds invested in plant and machinery not only shows an increasing trend but also the increases there fold. It is found that all the four cement plants taken for the study have undertaken capacity increase in these existing plants and also place orders for new plant and machineries to be erected in new directions.

It is natural for Tamil Nadu cement factories to hold higher inventory of limestone because of various factors involved in mining operation and location of the mining land from the factory. Coal has been imported from Andra Pradesh and West Bengal which leads to holding higher inventory of coal. Coal is the only fuel to manufacture the cement and it has to be obtained from West Bengal, Andra Pradesh involving much longer lead time. An analysis of their financial results show the change in policy of the cement industries in marketing cement was the main reason for reduction in their cash balance. As found in the Trend Analysis the cement plants had changed their marketing policy from “Cash and Carry” to credit sales. It is found that so many small cement industries have been closed because of improper cash management.

In addition direct marketing to a few select consumers like real estate developers is undertaken by the cement factories, by affecting credit to these consumers. Their earlier policy of selling cement through dealers is changed in the recent past and major consumers are focused by these cement plants for direct selling. This change in policy of offering credit to these large consumers is a major cause for higher debtors balance in the recent years. This has resulted in cash crunch as also mentioned in Cash Trend Analysis. The consumption of cement by government increases, this trend may be expected to decline.
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