Chapter VII

Findings, Suggestions and Conclusion

7.1 Preamble

The present study was undertaken with a view to analyse the financial performance of cement industry in Tamil Nadu for the period of 15 years from the years 1993-94 to 2007-08. The analysis of financial performance was carried out on parameters such as composition of capital and assets, liquidity position, activity management, capital structure, sales, profitability, asset utilisation, financial strength and financial health.

The published financial statements were extensively used for analysing and interpreting the financial performance of the cement companies. These statements have been analysed with the help of appropriate financial ratios and various statistical techniques, such as average, standard deviation, variance, Karl Pearson's coefficient of correlation, multiple regression, F-max test, analysis of variance, utilisation index and Altman’s Z-score analysis.

The study has also been on eliciting and analysing the opinion, through a well-structured questionnaire, of staff members of finance department to get a deeper understanding of the cement industry in Tamil Nadu. The elicited opinions of responses have been analysed with the help of statistical tools, such as factor analysis by principal component method, one-
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The study has also focused on eliciting and analysing the opinion, through a well-structured questionnaire, of staff members of finance department towards the financial performance of cement industry in Tamil Nadu. The elicited opinion of staff members have been analysed with help of statistical tools, such as factor analysis by principal component method, one-sample ‘t’ test, Friedman’s test, K-means cluster analysis, discriminant analysis chi-square test and mean ranking.
7.2 Findings of the Study

The key findings of the study relating to analysis of financial performance of cement industry in Tamil Nadu keeping in view the objectives of this study were summarised below:

7.2.1 Composition of Capital and Assets

- The total net worth of cement industry in Tamil Nadu has increased by 19.70 percent which signified the issue of fresh equity capital and accumulation of internal accruals during the period of the study.

- It has been observed that the capital structure of cement industry in Tamil Nadu consist of more owners’ equity than the borrowed capital. Moreover, borrowed capital for the cement industry in Tamil Nadu during the period of the study has been considerably declined. This indicated that the companies in cement industry in Tamil Nadu were averse to raising more debt capital due to fear of landing in financial bankruptcy during the lean years of profitability, if any.

- There has been a tremendous increase in total assets in cement industry in Tamil Nadu. This indicated that the companies in cement industry in Tamil Nadu has made substantial investments in fixed assets to increase its installed capacity and in current assets to meet the growing demand for cement in the country and in abroad.

- The annual growth rate of net working capital of cement industry in Tamil Nadu has considerably increased during the period the study. This growth rate was chiefly attributed to the prudent use of working capital in
the industry. MCL was effective in utilisation of working capital due to its sound working capital management.

- As for as growth of fixed assets during the period of the study is concerned, MCL have made substantial investments in fixed assets in order to increase its installed capacity.

- MCL occupied the first place in utilisation of capital during the period of the study. This was revealed from the fact that the company has witnessed significant growth in the total capital employed.

7.2.2 Liquidity Position

- The average current ratio of ICL and DCL was better than all the other companies in cement industry in Tamil Nadu during the period of the study. This was because of the fact that the companies have followed their current assets management effectively.

- The average quick ratio of ICL was higher than the pooled average quick ratio of cement industry in Tamil Nadu. This indicated that the company has been very efficient in managing the quick assets.

- There was a significant variation existed in liquidity ratios among companies of cement industry in Tamil Nadu.

7.2.3 Activity Management

- MCL have had higher inventory turnover ratio as compared to other companies in cement industry in Tamil Nadu. This was due to the fact
that the company has adopted efficient strategies in converting the frequency of finished goods into sales during the period of the study.

- The average debtors turnover ratio was better in CCCL during the period of the study. This showed that the credit collection policy of the company was highly efficient.

- CCCL performed better in working capital turnover ratio as the company has efficiently managed its working capital so as to convert production into sales.

- The total assets of cement industry in Tamil Nadu were considerably increased, whereas the turnover has considerably reduced during the period of the study, resulting in inverse relationship between total assets and turnover. This indicated that the cement industry in Tamil Nadu have utilized their total assets very poorly during the period of the study.

- DCL was better in utilising its fixed assets optimally due to the fact that contribution of fixed assets to the turnover of the company was comparatively more. This indicated that fixed assets management of the company was sound during the period of the study.

- Mottal’s ranking analysis revealed that MCL occupied the first place in debtor turnover ratio, CCCL performed comparatively better in working capital turnover ratio and DCL was good at effective utilisation of fixed assets and better activity management during the period of the study.
• The inventory turnover ratio, debtors’ turnover ratio, working capital turnover ratio, total assets turnover ratio and fixed assets turnover ratio have significantly varied among the cement companies under study.

7.2.4 Capital Structure

• CCCL was a highly levered company as debt content in its capital structure was more than equity during the period of the study. It indicated that the company was subjected to more risk than the other companies in cement industry in Tamil Nadu.

• MCL and CCCL have utilised their shareholders’ funds very effectively. So, it was concluded that these companies found right investment opportunities to use shareholders’ funds judiciously during the period of the study.

• There was a significant variation existed in debt-equity ratio among companies in cement industry in Tamil Nadu.

7.2.5 Sales and Profitability

• The CAGR of sales and profits of cement industry in Tamil Nadu were reported as 14.68 percent and 19.58 percent respectively. This has revealed that the growing demand for cement has been the driving force for such increase in sales and operating profits during the period of the study.

• The growth of sales reported in ICL was 69.08 percent during the period of the study. This showed that ICL has adopted effective marketing
strategies. Though the growth of sales was more in ICL, the company was unable to yield proportionate growth in net profit due to poor cost control measures.

- DCL occupied the first place in growth of net profit during the period of the study. This revealed that the company has adopted cost control measures effectively.

- CCCL and ICL were better in return on capital employed during the period of the study. This was due to fact that these companies were utilised capital in a viable way so as to maximise their stakeholders’ return.

- The operating profits of ICL were better during the period of the study. This was due to the reason that the company has adopted prudent production, sales and proper cost control policies.

7.2.6 Assets Utilisation

- MCL was better in effective utilisation of capital and optimum utilisation of fixed assets during the period of the study due to tapping the right investment opportunities.

- DCL occupied the first place in average utilisation of current assets and MCL occupied the first place in average utilisation of fixed assets. It was inferred that liquidity position of DCL and capital expenditure decisions of MCL were prudent during the period of the study.
- The results of regression analysis revealed that profitability of cement companies during the period of study was influenced by efficient utilization of assets.

- The results of regression analysis revealed that $R^2$ values of CCCL, DCL, ICL and MCL were 25 percent, 29 percent, 52 percent and 60 percent respectively. So it was observed that profitability was significantly influenced by the efficient utilisation of assets in the case of MCL and ICL. Therefore, it was concluded that the profitability of the companies in cement industry in Tamil Nadu was influenced by efficient utilisation of assets.

7.2.7 Financial Strength

- The short-term financial strength of ICL was comparatively better during the period of the study as the liquidity management of the company was good.

- The long-term financial strength of CCCL was better during the period of the study which indicated that the long-term financing and investment decisions of the company were good.

- The ANOVA results indicated that there was a significant variation among the ratios of short-term financial strength and long-term financial strength of cement companies in Tamil Nadu.
7.2.8 Financial Health

- The financial health of MCL was comparatively poor during ten years of the study. It was due to the fact that MCL has not maintained consistency in sales during the period of the study.

- The financial health of ICL, CCCL and DCL each was better in seven years during the period of the study. It revealed that these companies have maintaining good financial health during these years due to the wise financial management.

7.2.9 Staff Members’ Opinion on Financial Performance of Cement Industry in Tamil Nadu

- The staff members of the finance department of cement industry in Tamil Nadu have invariably opined that the liquidity position, solvency position, profitability position and leverage position were better.

- There was no association found between age, designation of the staff members and clusters of financial performance of the cement industry in Tamil Nadu. But there was an association found between educational qualification, work experience of the staff members and clusters of financial performance of the cement industry in Tamil Nadu.

- The staff of the finance department of cement industry in Tamil Nadu have opined that the non-cooperation of auditors in meeting the deadline in preparation of financial statements and adhere to various returns filed with legal bodies have been the most practical problems faced by them. They also felt that the management has been non-cooperative of certain
policy issues related to finance department. The higher-ups in the finance department felt that their subordinates and peers have been lacking in offering their support to the efficient functioning of the department. As far as resources of finance department of the cement industry in Tamil Nadu were concerned, the staff members have expressed satisfaction, but they felt that there was lot of scope for improving the resources.

7.3 Suggestions

❖ It has been observed that the capital structure of cement companies consist of more owners’ equity than borrowed capital. Moreover, borrowed capital for the cement companies during the period of the study has considerably declined. Hence, cement companies should tap debt market in order to issue bonds and debentures at reasonable rates of interest, keeping in view in market sentiments, to raise funds. This, in turn, helps the cement companies to reap the benefits of leverage in the long-run.

❖ It was inferred that the total assets during the period of the study were considerably increased, whereas the turnover during the same period has considerably reduced. This has resulted in existence of negative correlation between total assets and turnover. As a result, the cement companies have utilized their total assets very poorly during the period of the study. So, the cement companies must utilise all their total assets to the maximum potential so as to increase their turnover in the future.

❖ It was visible that CCCL and ICL were lagging behind DCL and MCL in utilizing the working capital very effectively. Therefore, it is suggested
that CCCL and ICL must tap good investment opportunities, in order to utilise their funds very judiciously.

- It has been observed during the period of the study that current ratio and quick ratio of CCCL and MCL were found to be less than the standard norms prescribed for these ratios. Hence, it is suggested that CCCL and DCL should revisit their current assets management and strengthen it to have the better liquidity position in the years to come.

- The inventory turnover ratio of CCCL and DCL was found to be less than the pooled average inventory turnover ratio of cement companies. Therefore, CCCL and DCL should re-frame their respective sales policies in such a way that frequencies of sales were more in a year. This, in turn, results in optimum investment of funds in inventory that leads to better inventory management.

- The average debtors’ turnover ratio of DCL and ICL was not satisfactory as compared to other companies under the study. Hence, credit policy of DCL and ICL should be reoriented, in order to have a better receivables management.

- It seemed from this study that MCL has not utilized its fixed assets optimally. So, MCL should reinvent its assets utilization program in such a way that fixed assets are used to their maximum potentiality. This will result in efficient utilization of funds invested in fixed assets.

- It was noticed that the capital structure of DCL, ICL and MCL consisted of more equity content and less debt content. This resulted in these...
companies deprived of reaping the benefits of trading on equity. It is suggested that these companies should raise funds through debt, so as to get the advantages of financial leverage.

- It was inferred that the return on owners’ funds of DCL and ICL showed a marginal increase during the period of the study. So, it is suggested that these companies must reconstruct its financial position in such a way that returns on owners’ funds increased. As a result, confidence of shareholders of these companies and potential investors will increase.

- The overall profitability position as indicated by profitability ratios was not good in CCCL and ICL as compared to the other two companies under the study. Moreover, in CCCL, the profitability position was not consistent during the period of the study. This was due to adoption of imprudent financial management. Hence, these companies are suggested to have prudent financial management, so that the overall profitability position improved.

- It was noticed that the operating profit index of DCL, ICL and MCL has declined during the period of study. This revealed that these companies were not efficient in generating operating income with respect to sales. So, it is suggested that sales policies of these companies should be restructured in such a way so as to have efficiency of generating more operating income with respect to sales.

- It was revealed that, in ICL, there was a decreasing trend of fixed assets to net worth ratio which indicated the higher margin of safety for long term creditors. So, the company should finance its fixed assets with
shareholders' funds, as far as practicable, so that the confidence of shareholders is ensured and margin of safety in the company for their money increased. This will result in reduction of debt financing of fixed assets to a considerable extent and the danger of financial bankruptcy is avoided in lean years of profitability.

- It was inferred that, in MCL and DCL, the debt-equity ratio has showed an increasing trend during the period of the study. This resulted that these companies were highly levered. Even though these companies capitalized the benefits of being a highly levered one, it will prove to be fatal in the years of low profitability for these companies. Therefore, these companies should minimize their dependence on long-term creditors and try to increase the claims of owners considerably.

- It was concluded that the liquidity position of CCCL was found to be unsatisfactory as its current ratio and quick ratio fell below the standard norms. Hence, current asset management in this company should be improved in order to have better liquidity position, in future.

- It was indicated that, in MCL, financial health was found to be sick since its Z score value was less than 1.86 for most of the years during the period of the study. Hence, the company is suggested to have better working capital, reserves and surplus, earnings before interest and tax and sales in relation to its total assets. Further, the company is suggested to have better capital structure. These steps are needed in order to restructure the company's financial position internally.
7.4 Conclusion

Analysis of financial performance and its interpretation is need of the hour in all industries across the world. True is the case in cement industry also. In order to compete with global economic scenario and to sustain its place, cement industry needs to monitor its financial performance continually and takes financial decisions rationally at all the times. This, in turn, requires a sound appraisal of financial management with critical evaluation of financial policies and programmes. The cement industry should resort to tapping of bond market to get the required financial assistance. The cement industry, being a capital-intensive in nature, should follow the cluster model, to reap the economies of large scale production. This model includes sharing of infrastructure, technology and man power amongst the companies of cement industry. Further, the cement industry must evaluate its capital budgeting decisions in a manner so that fixed assets are economically procured and efficiently utilised.

The Government of India should provide a level playing field for the Indian cement industry by way of lifting the ban on cement exports, levying of more excise duties on cement imports, reduction of excise and other duties on domestic cement, re-imposition of counter-veiling duties (CVD) and special CVD on cement imports, interest rate cuts on housing loans and reduction in the prices of coal and diesel.
7.5 Scope for Further Research

- In cement industry, research can be carried out in the area of finance by applying SWOT Analysis, to know the strengths, weaknesses, opportunities and threats. This helps the industry to perceive its potentials, imminent threats and challenges in order to device the ways and means to overcome such threats and meet the challenges appropriately.

- Mergers and acquisitions are quite common in any industry. So, research can be conducted to analyse the financial performance of cement companies before merger and after merger in order to study the impact of merger on financial performance and shareholders' wealth.

- The fluctuations in share prices of cement companies can be analysed in the context of prudent or imprudent financial management followed by cement companies.

- Research can be carried out to ascertain the impact of productivity and efficiency on the profitability of cement companies.

- Research can be undertaken by applying various theories of capital structure on the present capital structure of cement companies to validate the theories of capital structure.

- Research can be made on financial leverage adopted by cement companies, its impact on profitability, corporate taxes and earnings per share.