Chapter II

Review of Literature

The study of the past guides the researcher for getting better understanding of methodology used, limitation of various available estimation procedures, data interpretation and reconciliation of the conflicting results. Besides this, the review of earlier studies explores the avenues for present and future research related to the subject matter. A number of research studies have been carried out on different aspects of performance appraisal in the research, economic and social sectors in the area of finance in India and abroad. A review of this nature is important in order to develop an approach that can be employed in the context of the present study. Therefore, in this paper, a review of earlier studies related to financial performance has been made and rationale for the present study is given.

Nair N.K. (1991) has studied the productivity aspects of Indian Cement Industry. This study emphasized that cement, being a construction material, occupies a strategic role in the economy. This study has revealed that the present capacity of the industry had an installed capacity of 110 million tonnes with a potential capacity of 150 million tonnes. The cement industry has witnessed a very rapid capacity growth of about 100 million tonn
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The review of literature guides the researcher for getting better understanding of methodology used, limitations of various available estimation procedures, data base, lucid interpretation and reconciliation of the conflicting results. Besides this, the reviews of earlier studies explore the avenues for present and future research related to the subject matter. A number of research studies have been carried out on different aspects of performance appraisal by the researchers, economists and academicians in the area of finance in India and abroad. A review of this analysis is important in order to develop an approach that can be employed in the context of the present study. Therefore, in this part, a review of earlier studies related to financial performance has been made and rationale for the present study is given.

Nair N.K. (1991)\(^1\) has studied the productivity aspect of Indian Cement Industry. This study emphasised that cement, being a construction material, occupied a strategic place in the Indian economy. This study has revealed that, in 1990-91, the industry had an installed capacity of 60 million tonnes with a production of 48 million tonnes. In this study, the cement industry was forecasted to have a capacity growth of about 100 million tonnes by the year 2000. This study has also analysed the productivity and

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\(^1\) Nair N.K. (1991), Productivity in Indian Cement Industry, Productivity, Vol. 32 No. 1, April-June, p.141.
performance ratios of the cement industry with a view to identifying the major problem areas and the prospects for solving them.

Anup Agarwal and Nandu J. Nagarajan (1992)² have identified that the influence of family relationship amongst the senior managers of all equity firms in decision-making process and came out with the following findings. i) Managers of all-equity firms have significantly larger stock holdings rather than managers of similar-sized levered firms in the industry. ii) There is significantly more family involvement in the corporate operations of all equity firms rather than the levered firms, iii) Managerial ownership in all equity firms is positively related to the extent of family involvement and iv) All equity firms are characterized by greater liquidity positions than the levered firms.

Subir Cokavn and Rejendra Vaidha (1993)³ have made an attempt to evaluate the performance of cement industry after decontrol. He found that the performance of the cement industry after decontrol was characterized by outcomes that were generally competitive and welfare enhancing. This study has revealed that the structure of the industry changed significantly with large magnitude of relative technologically and superior capacity being created by many new entrants into the industry. It was noticed in this study that there were significant real price increase and an associated increase in profitability. The performance of firms across the strategic group was

different with firms operating relatively new and large plants appeared to have an advantage. Further, the study has dealt with the nature and effect of inter-firm heterogeneities in the cement industry.

Chandrasekaran N (1993)\textsuperscript{4} has made an attempt to examine determinants of profitability in cement industry. He identified that profitability was determined by structural, as well as, behavioural variables. He also identified that the other variables which influenced profitability were growth of the firm, capital turnover ratio, management of working capital, inventory turnover ratio etc. Some of the main changes in the cement industry environment during 1980’s identified in this study were: from complete control to decontrol, number of new entrants and substantial additions of capacity, changing technology from inefficient wet process to efficient dry process and from conditions of scarcity of cement to near gloat in the market.

Debashish Sur (1994)\textsuperscript{5} in his study, related to working capital management on Balmer Lawrie & Co Ltd., found that the company was averse to risk of maintaining lower level of current assets. The regression result showed major variation between actual and anticipated working capital in all the years in the study. The trend analysis of turnover and working capital of the company showed that the changes in the investment of working capital did not have any impact on the trading activity of the concern. Such a


mismatch revealed the inefficiency of working capital management of the company in this study.

Chandrasekaran N (1994)\(^6\) has studied about the market structure of the Indian Cement industry. It was found out in this study that the demand and supply gap has been considerably reduced and supply of cement during the period of study has increased due to creation of additional capacity and capacity utilization.

**Industrial Researcher, (1994)**\(^7\) identified that the consumption pattern of cement has shown a drastic change in upwards trend. The industry catered to two types of buyers, namely, individual and the government. The demand for cement as such was aimed at satisfying the basic requirement of people at large and economy in general.

**Chitra Rao N. and Rao. K.V. (1995)**\(^8\), in their study, revealed that the working capital problems faced by executives were huge in the areas of collection of debts, accumulation of finished goods, availability of working funds and uncertain cash flows.

**Rengarajan. M.R (1995)**\(^9\), in his study on working capital for sick industry, revealed that even profit-making companies were no exception,

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because, often their symptom of sickness was hidden by their profits. A close watch on the financial parameters would check the sickness at the gross root level, facilitating remedial measures. The interest burden of the industry and percentage of operating expenses on turnover were going up which resulted in depleting the profits. A detailed evaluation of operating expenses and shifting for soft loans or conversion of higher interest loans to equities could sort out the sickness and pave the way for revival measures.

Srinivasa Rao.G and Indrasena Reddy.P (1995)\textsuperscript{10}, in their study, stated that the financial position of paper industry had been improving from year to year. The company’s performance in relation to generating internal funds in the form of reserves and surplus was excellent and also the company was doing well in mobilizing outsiders’ funds. The liquidity position of the company was sound as revealed by current ratio and quick ratio which were above the standard. The solvency ratio showed that the company had been following the policy of low capital gearing from the 1990-91 as these ratios had been decreasing from this year. The performance of the company in relation to its profitability was not up to the expected level. The company’s ability to utilize assets for generation of sales had not been improved much during the period of study period as revealed by its turnover ratios.

Bhanu, (1995)\textsuperscript{11} has made an attempt to bridge the gap by empirically evaluating the performance of the cement industry in India during various phases of control and decontrol. This study has also revealed that the effect


of liberalization in the cement industry was diluted due to the lack of investment in coal and power which resulted in shortage, which in turn, led to poor performance and depletion in additional investment in the industry.

Reddy. V.N. and Ramkumar Kakani (1996)\textsuperscript{12}, in their study on econometric analysis of the capital structure determinants, have revealed that the profitability was found to be negatively correlated to the capital structure of the firm. Capital intensity of the firm was also negatively correlated to the short-term debt and total debt ratio of the firm. The regulated firms and growth oriented firms had more long-term debt in their capital structure. The earnings volatility and non-debt tax shields were significantly negatively related to the short-term and total debt of the firm.

Dev Prasad, Garry D. Broton and Andreas G. Merikas (1997)\textsuperscript{13} have analyzed to confirm the linkage between the capital structure and strategic posture of the firm. Specifically, managers were found to structure the selection of debt and capital intensity in a mean consistent with the strategic goal of long run control of systematic risk. This study has identified that the efficacy of a strategic perspective of capital structure will be examined by investigating the control of systematic risk in firms over the long-term through adjustment of the firm’s capital structure.


Reddy R.V.S. (1998)\textsuperscript{14} has revealed that decline in profitability alone need not be considered as a factor that resulted in the inefficiency of the organization. It was also due to proportionate rise in the cost of operation coupled with the usually delayed and inadequate increase in fares.

Tiwari R.S (1998)\textsuperscript{15} has identified the following outcomes. He revealed that the industry must earn reasonable profits to survive and this will mostly depend on the cost of production. He also suggested that proper management, effective control and cost reduction strategies are the most important methods that need to be adopted to improve the profitability in cement companies.

Dash, D.K. (1999)\textsuperscript{16}, in his study, found that the liquidity position of the bank had been maintained at high level. He also identified that the high level of liquidity affected the profitability and a low level of liquidity hampered the banks' image. He suggested that the banks could ill-afford to ensure financial stability and operational efficiency in order to survive in the ever-changing business environment. The study has also found that the financial performance of the banks was satisfactory. He identified that the cost for operating and managing the bank was more than 3 percent to the working capital which was just above an ideal level of 2 percent. The bank

was gradually consolidating its position of net worth as compared to fixed assets.

Ajay Acharya (1999)\(^{17}\) has studied the various factors responsible for rapid changes in the cement industry. The study also pointed out the reasons for more number of mergers, acquisitions and the fallout of smaller plants. The factors responsible for excellent performance of cement companies were: good quality with international standards, ability to keep up with competition, integration of information technology and finally nurture the people within the industry.

Desai B.H (2000)\(^{18}\), in his study of financial performance, had used Altman’s equation. He identified that low profitability was attributed to low rate of return on total assets. By using Z score analysis, he concluded that Gujarat Steel Tubes Ltd., was sick and felt that financial restructuring was the need of the hour.

Rajeswari. N (2000)\(^{19}\), in her study on liquidity management of Tamil Nadu Cement Corporation Ltd., Alangulam, identified that the liquidity position of the Tamil Nadu Cements Corporation Ltd. (TANCEM) was not satisfactory. She concluded that necessary steps ought to be taken to improve the liquidity position of the company.

\(^{17}\) Ajay Acharya (1999), Indian Cement Industry-Present and the past, Indian Cement Review, Annual, p.63-64.


Ralph I. Vegbunam (2001), in his study related to the financial distress and performance differences among commercial banks in Nigeria, has used multivariate ratio analysis to reveal the performance differences existed among commercial banks in Nigeria in the early 1990 where there was a widespread financial stress. The bank’s failure was primarily determined by bank-specific factors in Nigeria.

Anitha S. Kantawala (2002), in his study on financial performance of non-banking finance companies (NBFCs) in India, concluded that there existed a significant variation in the profitability ratios, leverage ratios and liquidity ratios of various categories of NBFCs. She concluded that the analysis of variance along with the details the average ratio may become a useful guide to companies so as to decide for continuation or otherwise in same line of business considering the overall profitability within the regulatory frame work.

Mansur Mulia. A (2002), in his study on financial health of textile mills, found that the textile mill under the study was just on the verge of financial collapse. The financial health of the mill was never in the too healthy zone during the period of study. The position on its performance front was very unviable and apprehensions of the total failure of the mill


were inevitable and certain. The mill has faced the problem of overtrading owing to the inadequate level of working capital.

Nand Kishore Sharma (2002)\textsuperscript{23}, in his Study on financial appraisal of cement industry in India, has found that the current ratio and quick ratio showed a decreasing trend and also these ratios varied from time to time. On comparing the current ratio and quick ratio of cement industry, six companies were found higher than the average and four recorded lower than the average of industry. The debt-equity ratio has showed a decreasing trend in the first 4 years of study, after that, it registered an increasing trend. The ratio of fixed assets to total debt always showed more than 100 percent which indicated that the claims of outsiders were covered by the fixed assets of the cement companies.

Prasad Sangameshwaran (2002)\textsuperscript{24} has studied the importance of branding the cement. Industry analysts felt that branding efforts have been initiated due to the cluster. The large media spends has influenced the increased visibility for the brand. Cement has always been loyal to the door media, walls and hoardings. He spelled out measures as to why branding becomes important for cement players today. Being bulky in nature, cement manufactures sell their products close to the area of manufacturing. Finally, he pointed out that, to stand out in the cluster, branding would naturally help.


\textsuperscript{24} Prasad Sangameshwaran (2002), Cementing Brand Equity, Indian Cement Review, October, pp.5-6.
Sanwar N.Mishra, (2003)\textsuperscript{25}, in his paper, stressed the factors responsible for competitive gain. Under the process of globalization of industry, achievement of the competitive advantage over the rival calls for an urgent management attention. The factors responsible for sustaining competitive advantage were production function characteristics, the process technologies, update of an efficient process, plant maintenance, the productive machine availability, efficient man-power utilisation, customer relationship management and supply chain management.

Ghosh S.K., and Maji S.G (2004)\textsuperscript{26}, in their paper, made an attempt to examine the efficiency of Working capital management of the Indian cement companies from the year 1992-1993 to 2001-2002. Findings of the study indicated that the Indian cement industry, as a whole, did not perform remarkably well during the period of the study.

Hamsalakshmi and Manickam (2004)\textsuperscript{27} have made a study on the financial performance of software companies with special focus on examining the structure of liquidity position, leverage and profitability. The study has revealed a favourable position of liquidity and working capital in software companies. The study has also pointed out that the companies relied more on internal financing and the overall profitability had been increasing at a moderate rate.

\textsuperscript{25} Sanwar N.Mishra (2003), Improving performance for a competitive gain in a cement plant, Indian Cement Review, April, p.15.
Alovsat Muslumov (2005)\textsuperscript{28} has studied the financial and operating performance of Turkish cement industry. He examined the post-privatization performance of privatized companies. The findings indicated that when the performance criteria for both the state and private enterprises were considered, privatization in the cement industry have resulted in significant performance deterioration. Total value added and the return on investment have declined significantly after privatization. This decrease mainly stems from deterioration in asset productivity. The decline in asset productivity, however, was not caused by an increase in capital investment, since post-privatization, capital investment did not change significantly. Significant contraction in total employment and an increase in financial leverage after privatization were among the key research findings. Privatization through public offering, gradual privatization and domestic ownership were found to stimulate the financial and operating performance of firms.

Rajendran P. and Ramesh D. (2006)\textsuperscript{29}, in their study on liquidity management of Tamil Nadu Tourism Development Corporation (TTDC), stated that the short-term liquidity was not at all satisfactory. The cash management of company was in poor position. Hence, the liquidity management of TTDC was very poor and not satisfactory.

\textsuperscript{28} Alovsat Muslumov (2005), The Financial and Operating Performance of Privatisation Companies in Turkish Cement Industry, METU Studies in Development, Dogus University, Vol.32(1) pp.59-100.

Parasuram N.R. (2006)\textsuperscript{30} has made an attempt to identify and study the movement of key financial parameters and their relationship with the profitability of automobile industry and he also made an attempt to study whether the key identified parameters move in a synchronous way of going up and coming down with basic profitability parameters. On the basis of the analysis, the broad conclusion was that the parameters were consistent within a wide horizon and the parameters have also responded in a synchronous manner with the growth of companies over the period of time.

Debasis Mukherjee and Mallika U.K. (2006)\textsuperscript{31}, in their study of performance analysis of leasing industry in West Bengal, have suggested that around thirty years of active business, many lease financing companies have either diversified their leasing business into other forms of activities or decided to quit the market. It was concluded that the vast growth potential and the performance of the existing leasing companies may be considered as an indicator for the prospects of the industry in the state of West Bengal.

Bardia (2006)\textsuperscript{32}, in his study on Liquidity Management of Steel Authority of India Limited, has analysed the overall quantum of liquidity maintained by steel sector and the amount tied-up in various components of working capital. This study has found that there was a positive association between liquidity and profitability.


Durga Rao S. and Janaki Ramudu (2006)\textsuperscript{33}, in their study on inventory management, concluded that the total inventory and raw material constituted the highest part followed by finished goods and work-in-progress across Indian commercial vehicles industry.

Misra and Mishra (2006)\textsuperscript{34}, in his study on profitability, analysed the factors influencing the profitability of Sugar Industry. The factors that have assumed a direct bearing on profitability are: Growth in size, growth in volume of business, operating cost ratio, leverage, liquidity, receivables turnover, fixed assets turnover and age. Their conclusion revealed that the variations in profitability was caused by the factors, namely, operating cost ratio, liquidity ratio and fixed assets turnover ratio.

Amalendu Bhunia (2007)\textsuperscript{35}, in his study on liquidity management analysed the efficiency of the management of short-term liquidity in selected public sector iron and steel enterprises in India. The study revealed that actual values of working capital have been found to be lower than the estimated values of working capital for the companies, such as Steel Authority of India Limited (SAIL) and Indian Iron and Steel Corporation (IISCO). There was a poor liquidity position existed in case of both SAIL and IISCO, inefficient inventory management in case of SAIL and inefficient receivable management in case of both the enterprises. It suggested that


increase in additional investment in raw materials, reduction in the burden of current liabilities were necessary in order to improve the inventory management and liquidity position of these steel companies.

Rathore G.S. and Pinki Roi (2007)\textsuperscript{36}, in their study on financial performance of Air India, have analyzed the capital structure, working capital, profitability position, operating performance and overall financial performance. It was concluded that Air India showed the better performance of capital structure and has improved the capital structure during the study period. The working capital of the company has showed a negative trend. The profitability position of the company has showed a fluctuating trend. The operating performance of the company has revealed that there was an increase in operating expenses. Hence, the operating profits did result the decreasing trend. The overall financial position of Air India Limited revealed the fact that the company’s financial performance was good, as well as, the efficiency of the organization has increased.

Debasis Sur et. al. (2007)\textsuperscript{37} conducted a study on measuring the efficiency of asset management of private sector enterprises in India during the pre and post liberalization periods. It was concluded in this study that the efficiency of the inventory management was achieved in the post-liberalization period as compared to the pre-liberalization era. The average turnover of fixed assets and the average efficiency of the cash management

\textsuperscript{36} Rathore G.S. and Pinki Roi (2007), Financial performance of Air India, Yojana, Vol.42 (11), pp. 36-42.

have declined considerably during the post-liberalization period as compared to the pre-liberalization era. It reflected on various assets during the post-liberalization period. It also signified that the selected company failed to adapt itself to the challenging and competitive environment resulting from liberalization.

Siddharth Mahajan and Mainak Sarkar (2007)\(^{38}\), in their study, has made an attempt to compare the financial performance of three Indian companies, namely, Tata motors, Maruti and Mahindra and Mahindra with two MNCs, Honda and Hyundai. The study indicated that the MNCs are more efficient in utilizing their assets to generate profits. However, the return on equity of the Indian companies was about ten times than that of the MNCs. Regarding the solvency ratios, the debt-equity ratio of the Indian companies were about one-and-half times than that of the MNCs. This was because the Indian Companies used much less equity capital than that of MNCs.

Sudipta Ghosh (2008)\(^{39}\) has conducted a case study in Liquidity Management of Tata Iron and Steel Company (TISCO). During the period of the study, it was found that the liquidity position of the company, on the basis of current ratio as well as quick ratio, was not satisfactory. It indicated that the share of current assets in total assets of the company, on an average, was 29.1 percent during the period of study. The fluctuation in the liquidity

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position over different years of the study period might be a point for investigation into the financial efforts of the company. It was suggested that to maintain overall control of liquidity position, the company should give special attention to the management of current assets. He found that the degree of influence of liquidity on its profitability was low and insignificant.

Rajamohan S. and Vijayaragavan T. (2008)\(^{40}\) have conducted a study on production performance of Madras Cement Limited. In order to analyze the comparative production performance of Madras Cements Limited and all cement units in India, Mann-Whitney U-test was applied. The results of analysis indicated that the production performance of selected unit was equal to production performance of all other cement units in India.

Adolphus J. Toby (2008)\(^{41}\) has conducted a study on liquidity performance relationship of Nigerian manufacturing companies. The results of the study have revealed a significant relationship between liquidity, profitability, efficiency and leverage measures. The study has also made an attempt to suggest that in order to target money supply, monetary policy could be used to facilitate monetary transmission mechanism by integrating a minimum liquidity requirement for the manufacturing industry.


Rationale for the present study

The researcher has thoroughly reviewed the above mentioned earlier studies conducted in the area of financial performance. These studies were related to various industries such as automobiles, banking, cement, information technology, paper, steel and sugar in India and abroad. Of these reviews, studies were conducted in cement industry in the areas of capital structure, consumption pattern, financial health, liquidity position, marketing, productivity, profitability, technological development and working capital management. But no comprehensive study was carried out to analyze the financial performance of cement industry in Tamil Nadu especially with respect to private sector cement companies. Bearing this in mind, the researcher has selected a comprehensive study analysing the financial performance of private sector companies in cement industry in Tamil Nadu.

Though this study was mainly based on secondary data in the form of financial statements of cement industry, the present study was unique in the sense that primary data was also used by the researcher to elicit the opinion of the staff of the finance department of cement industry in Tamil Nadu about the financial performance.