INTRODUCTION

Cement industry is a basic industry which plays an important role in the process of economic development of the country. The Indian cement industry is the second largest producer of quality cement that meets global standard. The cement industry has come to occupy a major place among India’s organized large scale industries. It is an essential material for building infrastructure like dams, bridges, hospitals, school and plants. The manufacture of cement requires several inputs like limestone, gypsum, coal, power, sophisticated plant and machinery and transport services especially of wagons. Consequently, the cement industry has manifold accelerating effect on activities in many sectors of the economy. Thus, the extent of forward and backward linkages of cement industry highlights its prominence in inter industry growth. This industry is also significant from the point of view of direct and indirect employment. It generates revenue contribution by way of taxes and duties to government and caters to basic of living, namely housing.

Finance is the life blood of business. It flows in mostly from sale of goods and services. It flows out for meeting various types of expenditure. The activating element in any business, which may be an industrial or commercial undertaking, is the finance. Finance plays a very important role in the day-to-day lives of each individual or corporation. It is a very wide term and it can be said to be the study of the science of managing funds. Usually, finance includes the areas of public, personal and business finance. It includes things related to lending, spending and saving money. An important aspect of finance is that individuals and corporations deposit money in a financial
institution, especially banks, which in turn lend out money and charge an interest for their services.

**ORIGIN AND MEANING OF FINANCE**

The word finance is originally, a French word. In the 18th century, it was adapted by English speaking committees to mean “the management of money”. Finance is now organized as a branch of Economic.

Furthermore, the one word which can easily replace finance is “EXCHANGE”. It is nothing but an exchange of available resources. It is not restricted only to the exchange and or management of money.

**DEFINITION OF FINANCE**

*In General sense:* Finance is the management of money and other valuables, which can be easily converted into cash.

*According to Experts* – Finance is a simple task of providing the necessary funds required by the business of entities like companies, firms, individuals and other on terms that are most favourable to achieve their economic objectives.

*According to entrepreneur* - Finance is concerned with cash and every business transaction involves cash directly or indirectly.

*According to Academicians* – Finance is the procurement of funds and effective utilization of funds. It also deals with profit that adequately compensates for the cost and risks borne by the business.
NEED FOR FINANCE

Business requires finance for many purposes.1 First, a large sum of money has to be spent on investigating the soundness of a business scheme before it is taken up for implementation. If the scheme is large and is organized as a joint stock company, drafting and printing of necessary documents, registration of the company etc. involve expenses. All these have to be done before the commencement of business. Secondly, in the case of a manufacturing organization a factory building has to be erected and machinery installed before production can be undertaken. Thirdly, money is needed to purchase raw materials, semi-finished parts and miscellaneous stores and to pay the workers. Finally, the procurement of money itself involves some expense. It is incurred on advertising, preparation of documents, maintenance of books, payment of interest, and creation of funds for repayment and so on.

MEANING OF FINANCIAL PERFORMANCE

The word ‘Performance is derived from the word ‘parfourmen’, which means ‘to do’, ‘to carry out’ or ‘to render’. It refers the act of performing, execution, accomplishment, fulfillment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich Kohlar “The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the

1M.Baneerjee, Business Organisation-An Introductory analysis, Asia Publishing House, Bombay, 1964, p.59
presentation, but the quality of results which is achieved refers to the performance. Performance is used to indicate firm’s success, conditions, and compliance. Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

FINANCIAL PERFORMANCE ANALYSIS

In short, the firm itself as well as various interested groups such as managers, shareholders, creditors, tax authorities and others seeks answers to the following important questions:

1. What is the financial position of the firm at a given point of time?
2. How is the financial performance of the firm over a given period of time?

These questions can be answered with the help of financial analysis of a firm. Financial analysis involves the use of financial statements. A financial statement is an organized collection of data according to logical and conceptual framework of some consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a balance sheet, or may reveal a series of activities over a given period of time, as in the case of an income statement.

Thus, the term ‘financial statements’ generally refers to two basic statements: namely, the balance sheet and the income statement.
The **balance sheet** shows the financial position of the firm at a given point of time. It provides a snapshot and may be regarded as a static picture. “Balance sheet is a summary of a firm’s financial position on a given date that shows Total assets = Total liabilities + Owner’s equity.”

The **income statement** (referred to in India as the profit and loss statement) reflects the performance of the firm over a period of time. “Income statement is a summary of a firm’s revenues and expenses over a specified period, ending with net income or loss for the period.”

However, financial statements do not reveal all the information related to the financial operations of a firm, but they furnish some extremely useful information, which highlights two important factors profitability and financial soundness. Thus, analysis of financial statements is an important aid to financial performance analysis. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. “The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm’s position and performance.”

**FINANCIAL STATEMENT**

A financial statement is an organized collection of data according to logical and consistent accounting procedures. It includes balance sheet and profit and loss account. They do not give all the information regarding the financial operations of a firm. Nevertheless, they provide some extremely useful information. For instance, the balance sheet is a mirror of the financial position of a firm. It reveals the assets the firm owns, the
liabilities that are payable to outsiders and the amount of internal liabilities in terms of the capital supplied by the owners of business at a particular point of time. The profit and loss account shows the results of trading and non-trading operations during a certain period of the time, usually a year. It presents the summary of the income obtained and the costs incurred by the firm during a one-year period. Thus, the financial statements provide a summarized view of the operations of a firm. Therefore, much can be learnt about a firm from a careful examination of its financial statements. In fact, “financial statements themselves are organized summaries of detailed information and are, thus, a form of analysis. The types of statements accounts prepare, the way they arrange items on these statements, and their standards of disclosures are all influenced by a desire to provide information in a convenient form.”

FINANCIAL STATEMENT ANALYSIS

Financial statement analysis means the process of evaluating relationship between component parts of financial statements to obtain a better understanding of firms’ position and performance.

The type of relationship to be investigated depends upon the objectives and purpose of evaluation. The purpose of evaluation of financial statements differs among various groups interested in the business and relationships reported in the financial statements.

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

Financial statements are the indicators of the two significant factors:

a. Profitability and

b. Financial soundness
Analysis and interpretation of financial statements, therefore, refer to such a
treatment of the information contained in the income statement and the balance sheet so
as to afford full diagnosis of the profitability and financial soundness of the business.

A distinction is made between the two terms—“Analysis” and “Interpretation”.
The term analysis means methodical classification of the data given in the financial
statements. The figures given in the financial statements will not help on unless they are
put in simplified form. The term interpretation means explaining the meaning and
significance of the data so simplified.

However both “Analysis and Interpretation” are complementary to each other.
Interpretation requires analysis, while analysis is useless without interpretation.
According to Kennedy and Muller, “Analysis and Interpretation of financial statements
are an attempt to determine the significance and meaning of the financial statement data
so that the forecast may be made of the prospects for future earnings, ability to pay
interest and debt maturities (both current and long term) and profitability of a sound
dividend policy.”

Financial Statement analysis is largely a study of the relationship
among the various financial factors in a business as disclosed by a single set of statement.

TYPES OF ANALYSIS

The process of analysis may be taking the various types and, normally, it is
classified in to different categories on the basis of information used and on the basis of
modus operandi of analysis. The classification is as under.

ANALYSIS

1. On the basis of information used

   a. External Analysis

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2 Gupta, S.P., Management Accounting, SahityaBhawan Publications, New Delhi, 1977, p.43.
b. Internal Analysis

2. On the basis of modus operandi used
   a. Horizontal Analysis
   b. Vertical Analysis

External Analysis

This is an analysis based on information easily available to outsiders for the business. Outsiders include creditors, suppliers, investors, government agencies etc. These parties do not have access to the internal records of the concern and generally obtain data for analysis from the published financial statements. Thus, an analysis done by outsiders is known as external analysis. Such an analysis serves a very limited purpose.

Internal Analysis

This is an analysis, based on information obtained from the internal and unpublished records and books. Naturally, it is being conducted by internal analysts such as executives, employees, government officials etc. Such an analysis is useful for internal government and employees.

Horizontal Analysis

Trend analysis or Dynamic analysis is made by analyzing the financial statements over a period of years. This indicates the trend of such variables, as sales, cost of production, profits, assets and liabilities. For this purpose, comparative financial statements are prepared horizontally.
**Vertical Analysis**

It is called structural analysis because it shows the relationship between different accounting variables. For this purpose, comparative financial statements are prepared vertically.

**LIMITATIONS OF FINANCIAL STATEMENT ANALYSIS**

The nature of figures which are reported and the way in which they are reported tend to give the impression of the reader that financial statements are precise, exact and final. But these statements have certain limitations.

1. The information furnished by the financial statements is not precise. Since the construction of these statements is based on practical methods and rules, the information emanating from them cannot be precisely measured.

2. Financial statements do not disclose the correct financial position of the business firm. The financial position of a business firm is affected by several factors like economic, social and financial but only financial factors are being recorded in these financial statements.

3. Balance sheet is considered to be a static document and it reflects the position of the firm at a moment of time. The real position of the firm may change day by day. As a result of this limitation, there is possibility of window dressing in the balance sheet.

4. Balance sheet is not a valuation statement. In other words, the values shown in it are not real values of assets of which these can be sold. It is thus clear that exact position of the business cannot be gauged from the balance sheet.
5. Profit disclosed by the profit and loss account is also not a real profit. The profit and loss account for a particular year exhibits a profit, which is never accurate and correct mathematically or from economic point of view, because a number of items shown in the profit and loss account are just estimates.

6. Information conveyed by these statements may not be comparable on account of difference between dates of preparation of these statements. At the same time, the difference in methods of accounting followed by different business outlets and in nature of business of different firms may render the financial statements of two concerns impossible or difficult for the purpose of comparison.

7. Financial statements fail to depict the value of human resource. The success of a business firm depends, to a greater extent, upon the energy ability and efficiency of the management and but badly, this is not shown in the statements.

IMPORTANCE OF THE STUDY

Financial statement analysis is a valuable tool of fund management to measure the liquidity, profitability, activity and leverage of the firms.

Dalmia Cements (Bharat) Limited and The India Cements Limited have been taken for financial statement analysis as they have made tremendous growth within a longer period of more than a number of decades from its inception. This study brings to light the strengths and weaknesses of these industries.

STATEMENT OF THE PROBLEM

The financial performance is an important factor which indicates the growth of the company. It is influenced by several factors like cost, revenue and the resultant margin of the companies. Financial performance may be exhibited with the help of many
aspects namely financial facts, financial ratios, financial health, strength, funds position, utilization of assets etc. The financial performance may be influenced by the operational and financial efficiency of the company which is related to many cost aspects and the revenue. One of the best indicators to the financial performance is return either on assets, sales, equity or others. Thus, the problem related to the financial performance of the company is interlinked to many aspects namely cost, revenue, capital assets and other related variables. If the analysis made on all the aspects of the company gives a clear cut picture about the financial performance of the companies, it can be used for some policy implications for future development of the company. So the statement of the problem reveals the relationship between various aspects of financial performance of select cement companies. The cause and effect relationship, growth on performance of the companies the nature of utilizations are the real problems focused in the present study. It analyzes the financial performance of selected companies under the study.

**OBJECTIVES OF THE STUDY**

The objectives of the study are stated as follows:

1. To know the profile and functions of selected cement industries in Tamil Nadu
2. To examine short-term and long-term solvency status of selected cement industries during the study period with the help of annual reports.
3. To understand the performance efficiency and managerial ability of selected cement industries.
4. To analyze the profitability and fund performance of selected cement industries with the help of important ratios.
5. To offer suggestions for the better performance of selected cement industries.
SCOPE OF THE STUDY

The main scope of the study is to evaluate, analyze and understand the financial statements and to know the influence of the financial position on reputation in the years 2003 to 2011.

METHODOLOGY

For effective prosecution of the study, secondary sources of data are used. Annual reports of companies are the major sources of data. Standard text books on Financial Management and Management Accounting are referred to. To supplement it primary data are collected through unstructured interviews with the financial managers of these companies. The study covers a period of 8 years from 2003 to 2011. The researcher has used statistical and non-statistical tools for analysis of data. Fixed base indices for various components of assets and liabilities have been computed to ascertain the percentage change in the components of assets and liabilities. To assess the efficiency of financial analysis conventional tools of financial analysis such as comparative statements analysis and ratio analysis have been used. To pinpoint results, statistical tools like standard deviation and mean have been used.

PERIOD OF THE STUDY

The study of Financial Performance of selected cement industries covers a period of eight years from 2003-04 to 2010-11.

TOOLS FOR DATA COLLECTION

1. **Primary Data:** The primary data are collected by an unstructured interview schedule by the researcher regarding the functioning of the industries from 2003-2011.
2. **Secondary Data:** The secondary data are collected from the annual reports, magazines, websites and the internal auditing books of selected cement industries.

**TOOLS OF FINANCIAL ANALYSIS**

The financial statements must be made simpler for any reader to understand the operating results and the financial health of the business. This is done with the help of the following tools of the financial analysis. These are also termed as methods of Financial Analysis.

1. Comparative financial statements
2. Common-size statements
3. Trend Analysis
4. Ratio Analysis

Of the above methods of financial statement analysis, this thesis is concerned with a detailed account of comparative financial statement analysis and ratio analysis as tool.

**LIMITATIONS OF THE STUDY**

The study is mainly based on secondary data and the inadequacy of secondary data is reflected in the analysis. More meaningful and reliable conclusion could have been drawn if sufficient primary data had been made available.

Since the method of calculation in various items for accounting may differ from year to year, the financial interpretation cannot be precisely perforated. Also, since only eight accounting years have been chosen for analysis, the project cannot be had as a thorough knowledge of selected cement industries itself.
The present study is largely based on ratio analysis which has inherent limitations. The analysis of financial statement of business enterprises gives diagnostic indicators. Researcher being (outside) external analyst obviously has no access to internal data. Therefore, inside view of the organization could not be picturized in the study. Only two cement companies have been considered in the study such as India Cements and Dalmia Cements (Bharat) in Tamilnadu.

CHAPTERISATION

This study has been divided into six chapters.

Chapter I  Introduction
Chapter II  Concepts and Review of Literature
Chapter III Profile of the selected Cement Industries
Chapter IV  Fund Management Analysis of Dalmia Cement (Bharat) Limited
Chapter V  Fund Management Analysis of India Cements Limited
Chapter VI  Summary and Conclusion

In this chapter, the researcher discusses the term of finance, financial performance and financial statement analysis. The researcher has designed the chapter related to importance, objectives, research problem, methodology, statistical tools, limitations and chapter schemes.