REVIEW OF LITERATURE
CHAPTER II
REVIEW OF LITERATURE

A Research study takes into account past studies in relevant area, like research publications or articles and their findings. Systematic research studies comparing the performance of companies based on their geographical location are not yet available. However there have been studies on performance and the factors influencing performance. Research studies carried out in India and abroad were surveyed by the researcher. Useful hints were drawn from these studies to put the present work in the proper perspective. A list of some of the relevant research studies and research papers on performance are presented in this chapter.

Chudson\(^2\) (1945) has published a research paper on the performance of the corporate financial structure, in which he provides direct evidence to show that companies with huge amounts of Fixed Assets use more long term debts. He also indicates that there is no simple linear relationship between corporate size and the debt ratio.

Barges, Alexander\(^3\) (1946) in his research paper on The Effect of Capital structure on the Cost of Capital adopt the most comprehensive test for the M.M. Hypothesis. He analyzes the relationship between the average cost of capital and leverages, and between the stock yield and debt - equity ratio. For the purpose of his study, he utilizes a cross section of data from three different industries namely Rail, Road, Departmental stores and Cement industries. His observations are distributed over the entire range of capital structure. Each sample has a significant number of cases with little or no debt. He makes special efforts to introduce homogeneity among the sample firms. Barges criticizes M.M for using market value as it introduces a bias in the estimate of leverage co-efficient. He therefore has used book value as a measure of leverage.


Wippern, (1966) in his research paper on “Financial Structure and The value of the Firm”, concentrates on the cost of equity instead of the overall cost of capital. By doing this, he shows that the cost of equity is significantly linear and increases at an appropriate rate to exactly offset the injection of debt into the capital structure and keep the overall cost of capital constant.

Comanor, and Wilson (1967) in their article on “Advertising, Market Structure and Performance”, examines the relevance of advertising intensity as a factor in industrial profitability. They point to advertising intensity as a major determinant of profitability in 35 U.S. Consumer goods industries.

Jain, (1967) analyzes the financial statements of cement companies in India. The study reveals that by and large their financial performance is satisfactory on the basis of the ratio analyses made.

There are a number of works on determinants of profitability in India. Subramanian and Popoia, (1971) have studied the relationship between profitability and the growth of firms in the Indian Chemical Industry during the period from 1960 to 1969 with data of 27 companies quoted in the Stock Exchange. They report that most of firms want to grow in an expanding market with differing intensities and that those who have ability aided by profit continue to grow faster.

Gale (1972) has examined the effect of market share on the rate of return of selected firms operating in different market environments using data from 106 firms. He records that high market share is associated with high rates of return and that the effect of share on profitability depends on other firms and industry characteristics such as degree of concentration and rate of growth in the industry and the environment in which the firm

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6 Jain, D.C. analysis of financial statements in cement companies in India, Rajasthan university, jaipur.1967.
7 Subramanian k.k. and popoia . T.S., “ profitability and the growth of the firms : the case of Indian Chemical industry, anvesale, June 1971.vol .1 no .1
competes and on the absolute size of the firm. He also finds that the relation between rate of return on equity and capital ratio (a measure of risk in an inter-industry sample of firms) was positive and significant.

**Hurdle**\(^9\) (1974) has developed a theoretical model relating to leverage, market structure, risk and profitability and tested the model using cross-sectional data from 28 United States manufacturing firms and 85 industries with data covering the 1960's. Hurdle used three simultaneous equations to test the hypotheses of his study and found that the firms earned profits because of market structure and not through capital structure.

**Gosh and Roy** \(^{10}\) (1977) have tried to see how far the liquidity of the firm is influenced by the conditions in the industry. Liquidity characteristics have been chosen for replication of the model elsewhere to judge the industry's and economy's influence on firms. Liquidity characteristics are judged in terms of current ratio, since it is a widely accepted tool for measuring liquidity.

**Ghosh** \(^{11}\) (1978) has studied the financial position of 18 private sector companies, all with a paid-up capital of ₹ 50 lakhs and above, whose principal item of manufacture was cement. He has analyzed the Balance Sheet and the Combined Income and Expenditure Statements and found that they were financially sound.

**Pramod Kumar** \(^{12}\) (1980) has made a comparative study of private, state government owned and central government owned firms. It reveals that the utilization of investment in augmenting sales is better in the private sector than in state owned or central public sector firms. The income generated by the industry has shown an upward trend. This study also reveals that long term funds are the major source of capital structure in the private sector. The main suggestions of this study are that 1. Higher priority should be given to reduce the operating cost, and capacity utilization. 2. Much importance should

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\(^{12}\)Pramod Kumar, 'analysis of financial statements of cement industry. Large since 1979' , 'a survey of Research in commerce and management' 1980, p.275.
be given to improve the liquidity and solvency position and 3. Attention should be given to better packaging and distribution.

**Khanna and Subramanian**\(^{13}\)(1981) have studied 10 units in the cement industry to analyze their liquidity, profitability, financial structure and overall performance. They have used ratio analyzes and merit rating to arrive at valid conclusions. They found the financial structure of the industry had declined over the years. Non availability of funds had affected modernization of plants and periodic rehabilitation of kilns.

**Swamy**\(^{14}\)(1984) has examined the various aspects of capital, employment, productivity, profitability, rate of return on capital and cost structure of the cement industry for the period 1965- 1978. The study reveals that fixed capital of the industry has shown a negative growth rate during the period. Capital Intensity had declined drastically over the period indicating deterioration of the financial position of the industry. The ratio of working capital to productive capital also declined over the period, whereas the input-output ratio showed a favorable increase. Finally, the material consumed cost had increased over the period.

**Sethuraman and others**\(^{15}\) (1985) have reviewed the concept of social limits to growth that has been with us for some time. Now that the Indian economy has been opened up, it has interesting implications for the industry, which is poised for growth. This study was prompted by the cement industry, which found itself in difficult conditions within months of de licensing. Using simple criteria, it has been found that the Indian economy is easily prone to market saturation. Relatively small increases in output have succeeded in a turnaround from scarcity and attractive margins to falling unit realization and capacity utilization. Since this behaviour is a characteristic of the economy, it is feared that the story could easily be repeated in other cases like fertilizers and two wheelers closely on the heels of cement and light commercial vehicles. It is suggested that corporate

\(^{13}\)Kanna and Subramanian, financial performance and the cement industry. Large and medium 1972-1979.
March, yojana, 1981

\(^{14}\)T.L.N swamy, 'trends in cement industry in India – 1965-78', Lok Udyog, September 1984, p.46

managements should pay due attention to this characteristic in the course of the planning and implementation of expansion projects.

Chamoli,16(1985) has attempted to assess the capital structure pattern of the Cement Industry in the private and public sectors. He also makes a comparison of the observed ratio by debt- equity with established norms and tries to identify the factors responsible for the difference between them. It is suggested that if the financial function of the industry is to be made self-propelling, the gear as well as they payout ratios are to be pushed up by financing future expansion with the help of long term debt and not with help of addition to equity.

Arun Khandekar 17(1986) has observed in his paper that the Seventh plan target for installed capacity of cement has been fixed at 60 million tonnes as against the Sixth plan end level of 42.5 million tonnes. The production target has been fixed as against the actual production of 30 million tonnes in 1984-85. This means the cement industry will have to grow one and a half times more within a span of five years. By all standards, this is a challenging task.

Alexander P. Prezas 18(1987) has made an attempt to study the effects of debt on the degree of operating and financial leverages. He has found that the degree of operating and financial leverages was affected by the changes in the firm’s capital structure. The degree of financial leverage was changed due to changes in interest payments. Financial & operating leverages were highly influenced by the relative size at the debt, elasticity of real capital & contribution margin.

Thomos, Brient and others 19(1987) in their study “Empirical Measurement of Operating Leverage for Growing Units “ have discussed the relationship between the degree of operating leverage & the ratio between total asset & net sales, depreciation & total assets.

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Mohammed Talha and Faheem Usman Siddique (1990) have opined that for the cement industry coal quality is very important as it affects both the quality of cement and the operation of the plant. The Indian cement industry uses coal because of its abundant availability and shortage of oil and natural gas. Today the Indian cement industry has to use coal of high ash content with varying characteristics. To sort out this problem the role of coal in cement making has to be reassessed and possible improvements in coal quality and consistency have to be explored. Under the formula suggested by the Bureau of Industrial Costs and Prices, old cement plants up to 75 percent capacity utilization and new ones with 60 percent utilization will be acquired by the government at the levy price. The rest will be sold at the market price. The author says that this proposal, if implemented will give a shot in the arm to the industry.

Nair (1991) has studied the productivity aspect of the Indian cement industry. In 1990-91, the industry had an installed capacity of 60 million tonnes. The industry was poised for a capacity growth to about 100 million tonnes by 2000 A.D. The study attempted to analyze the productivity and performance ratio of the industry with a view to identifying the major problem areas and the prospects of solving them.

Anup Agarwal and others (1992) have published a research paper on, “Corporate Capital Structure, Agency Costs and Ownership Control: The Case of all Equity Firms”. In this study, they have attempted to prove that all equity firms (firms which use no long term debt over a continuous five year period) exhibit greater levels of managerial stock holdings, more extensive family relationships among top management and higher liquidity positions than a matching sample of levered firms. Further, they record that the managerial control of voting rights and family relationships among senior managers are important factors in eliminating leverage. Their main findings are i) managers of all equity firms have significantly levered the firms in their industry, ii) there is significantly greater family involvement in the corporate operations of all equity firms than in

21 N.k Nair, productivity in Indian cement industry, productivity vol 32 No, 1, April -june 1991, p.141
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 levered firms.

Subir Cokavn, Rajendra Vaidya\(^2\) (1993) has made a serious attempt to evaluate the performance of the cement industry after decontrol. It is found that the performance of the cement industry after decontrol is characterized by outcomes that are generally competitive and welfare enhancing. The structure of the industry changed significantly with technologically superior capacity being built up by many new entrants into the industry. It is noticed that there is a significant real price increase and an associated increase in profitability. The performance of firms across strategic groups is different, with firms operating relatively new and large plants appearing to have an advantage. An important point which is highlighted in this paper is the nature and effect of inter-firm heterogeneities in the cement industry.

Chandrasekaran \(^3\) (1993) has made an attempt to examine, the determinants of profitability in the cement industry. Profitability is determined by structured as well as behavioural variables. The other variables, which influence profitability are 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 the 1980’s are the perform from complete control to decontrol, their number of new entrants and the substantial addition of capacity, the changing technology from inefficient wet process to efficient dry process and from conditions of scarcity of cement to near glut in the market. The companies were involved in aggressive marketing strategies.

Kumar\(^4\) (1994) has stressed the importance of coal in the cement industry. It is vital to adopt measures for the improvement in mining techniques as well as resorting to coal enrichment so as to minimize extraneous material and ensure consistency in the quality of


\(^4\)D.Kumar . ‘utilization of coal in the cement industry with particular reference to coal benefaction’ ‘mintech vol15 , No. 1 Jan –feb 1994, p.40
coal. Finally the cement industry has to go for technological improvements in different unit operations such as drying and grinding, matching raw mix and coal burning technique etc., which can lead to successful kiln operation.

Chandrasekaran\(^2\) (1994) has studied the market structure of the Indian cement industry. The concepts of firm, industry, market structure, conduct and performance are defined as conventionally used in the literature of industrial organizations. It is concluded that the demand and supply gap has been reduced considerably and supply of cement during the study period increased due to creation of additional capacity and capacity utilization. The Private sector has about 84 percent of the installed capacity. It is also found that the size of plants has increased over the years. Mini cement plants came into existence in the 1980's. Consumption of Portland cement increased during the period. Structural analysis shows changes in structural features and competitive conditions in the industry. This is mainly due to government initiative and corporate response.

Jethra and others \(^2\) (1994) list out the problems and prospects faced by the Indian cement industry. The Cement industry in the country dates back to the early part of this century. The first cement plant was set up in Porbandur in 1914. Since then the capacity and production of cement have grown steadily. The geographical spread of the industry is mainly determined by the occurrence of limestone deposits. The eighties witnessed major developments in the cement scenario. A welcome feature in the industry in the recent past is a very healthy growth in exports. Further it is stated that the basic problems of the cement industry are coal, power and transport. There is need for conversion from wet process to dry process to improve the techno economics of this industry.

In Industrial Researcher \(^2\) (1994) an attempt was made to discuss various facts relating to cement industry and assess the future scope for development. Among the five varieties of cement manufactured in India, Portland cement is the most popular one. It is extensively used in construction of buildings. Production is spread over all parts of the country and limestone and other materials are available at many places. India’s

\(^{28}\)In Industrial Researcher,25 'A review of cement industry in India', Industrial researcher, oct-dec 1994, p.25.
dependence on imports has declined over the years and reached the nil print. The consumption pattern of cement has shown an upward trend. The industry caters to two types of buyers namely individuals and the government. The demand for cement is as such perennially satisfied.

The problem of industrial concentration is very old. It gives rise to widespread consequences. The intensity of concentration is very insignificant in the cement industry as a whole and in two of its sectors. A few large houses are in a position to dictate and control a large proportion of production and investment activity in the industry. In this industry extreme inequality persists in the shares of the large firms, average firms and small firms. It manifests itself in the noncompetitive market structure, merger and collusion, unduly high prices, restriction of output, low capacity utilization and monopolistic and restrictive trade practices. The largest firm and the second largest four firms produce about 30 to 37 percent and 48 to 56 percent of the entire industry’s production. It leads to least desirable combinations of high concentration and least competition. The public sector firms have a very passive role in improving the situation. The larger firms in the public sector have to develop capacity to provide a competitive threat to their counterparts in the private sector. The structure of the industry has not changed and the pattern of competition and concentration has remained basically unaltered through the period from 1971 to 1980.
Bhanu,²⁹(1995) has made an attempt at empirically evaluating the performance of the cement industry during various phases of control and decontrol. Capacity utilization is taken in this study to be most important factor to explain the decentralization in investment in the cement industry after the mid 1980s. This study argues that both supply and demand factors, besides policy change, influence the performance of the industry and shortage in supply hamper higher utilization of capacity. The availability of coal as well as power is important for higher capacity utilization in the cement industry, while price of cement has a positive effect on capacity utilization and levy has a negative effect. This study also reveals that the effect of liberalization on the cement industry was diluted by the lack of investment in coal and power which resulted in shortage, which in turn, led to poorer performance and deceleration of additional investments in the industry.

Dev Prasad and others,³⁰(1997) have presented a research paper on “Long run Strategic Capital Structure”, in which they analyze the link between the capital structure and the 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. Therefore, the efficacy of a strategic perspective on capital structure was examined by investigating the long term control of systematic risk through the adjustment of capital structure.


Tiwari. 31(1998) finds that the cement industry is passing through a highly discouraging period due to high cost of production and low prices. Many units are suffering due to the above factors and the unexpected fall in demand particularly in the government sector. There is no doubt that the demand will improve and the prices will go up but cut-throat competition in the market has come to stay in spite of the various strategies adopted by the Cement Manufacturer’s Association (CMA). 32(1999) The industry must earn reasonable profits to survive and this will mostly depend on the cost of production. Proper Management, effective controls and cost reduction strategies are the most important methods to improve the profitability in cement factories.

Ajay Acharya 33(1999) has studied in detail the various resources vital for rapid changes in the cement industry. The study also points out reasons for the large number of mergers, acquisitions and their fall-out on smaller plants. The factors that are essential for cement companies to excel in their business are good quality and the ability to keep up with standard Competition Companies. A combination of the technology and scientific attitude towards management, benchmarking of information technologies and human resources development will accrue into a volume, which will give the cement industry a pride of place.

Longman, 34(2000) in his paper analyzes the key performance indicators such as clinker output per employee, kiln running time, kiln fuel consumption, maintenance cost, etc., Although Blue circle industries (BCI) have been recording key performance Indicators (KPI) for many years, it was only in the last few years that these have been systematically analyzed and the results of individual plants are compared through international benchmarking exercises. The results of these exercises have allowed the BCI to identify

areas that can be improved to initiate a process of continuous improvement by setting targets and ensuring that best practices are implemented. This paper outlines the range of parameters monitored, describes the process of assessment and comparison and gives examples of some of the benefits reaped.

Tangri\(^{35}\) (2000) has stressed the need and importance of transportation of cement in bulk without bagging in loose. In almost all the developed countries, cement is transported in bulk either by rail (or) road in Small bags of 5 kg. (or) 10 kg and sold through departmental stores. In India the normal mode of transportation of cement is in 50 kg bags. This quantity should be reduced as much as possible, by doing so the industry can achieve a substantial reduction in the cost incurred in boarding and distribution at the unloading end. Railways carry cement in bulk transportation and the gains of bulk transportation should go to the consumer. Keeping in view the overall advantages to the industry, the consumer, the economy, the transporter and the environment, transportation of cement in bulk needs to be encouraged and pushed.

Khiria\(^{36}\) (2000) wants importance to be given to mini cement plants so that certain basic problems of our economy like unemployment can be reduced. In a large country like India such mini cement plants not only help in dispersal of industries to rural areas, but also have employment potential many times more than the bigger plants. They also provide for substantial savings in power consumption and cost of installation per unit. Durga Prasad Sahoo is the first manufacturer of cement in the tiny sector in India. At present there are more than 300 mini cement plants. This has also spread to the Middle East and African countries, Bangladesh and Oman.

Sharma\(^{37}\) (2001) has studied the pains and problems of shortage and surplus of cement in the past decades. The transformation of the cement scenario from acute scarcity to huge surplus has depressed prices to uneconomic levels, be finals.

Amit K. Malik, and others \(^{38}(2005)\) studied the relationship between working capital and profitability in the context of the Indian pharmaceutical industry and concluded that no definite relationship can be established between liquidity and profitability.

Das.\(^{39}(2006)\) examined the dividend practices followed by the Associated Cement Companies, from 1985-86 to 2004-05. He found that the company followed a conservative dividend policy during the study period there was a significant increase in profitability due to earnings per share and capital employed current ratio was on a declining trend.

Ramachandra Reddy and others \(^{40}(2007)\) have examined the effect of selected variables on Market Value Added. This study was conducted with 10 cement companies in India and the objective was to examine the effect of select variables on Market Value Added. For this purpose a Multiple Regression Technique has been used to test the effect of select variables on the Market Value Added. The study found that none of the factors are found to have an impact on Market Value Added and BPS is found to have a negative and significant impact on Market Value Added. The study concluded that the performance of the selected cement companies in terms of profitability cannot be increased unless problems like technological lag, high cost, taxes etc, are solved.

Deepa and others\(^{41}(2007)\) presented an empirical study on liquidity management of a leading automobile company from 1995 to 2006 the researchers observed that the liquidity position was not good during the study period. In order to improve the liquidity position of the Company, it was suggested that do its assets should be utilized in an effective manner, cash balances should be increased and current liabilities reduced.


Jeelan Basha (2007) there has been a sea change in the functioning of Banking Scenario since the implementation of liberalization policy in 1991. The rapid growth and Development of information technology and communication systems have made banking services accessible to customers at the click of mouse/ his finger tips. The organization of these things has resulted in acute competition not only among domestic banks but also between domestic banks and foreign banks. The Indian banking system has undergone a major rapid structural transformation over the last four decades from social banking to commercial banking, traditional class banking, brick and mortar banking to electronic banking and local banking to universal banking.

CABI (2008) The World Sugar Journal will in future present its individual country supply and distribution tables on a new format in an attempt to present its readers with more accurate and meaningful information. It will now show commercial stocks and surplus / deficit calculations for each country in order to further presentation of sugar statistics.

Jayapal (2008) in his study analyzed the financial performance of Gomuki - Co operative Sugar Mills Limited and concluded that the performance of sugar cooperatives, was not satisfactory and in spite of the tremendous role played by sugar cooperatives in national as well as state development and growth, they stood at the cross roads Evaluating the financial performance has stated that stress should not only be an profitability but also on liquidity and cash flow aspects.

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43 V. Jeelan Basha, Consulting Editor, The ICFAI Research center, pune. 2007.
Prasanh,\textsuperscript{46} (2008) the unraveling of the global financial crisis sends a clear signal that India has to make fundamental changes in its management of the banking and financial Sector. The First Pre- requisite is a return to relationship banking. The immediate Indian Response to the global crisis should be to work towards lowering interest rates which at their high level have hurt manufacturing investment in both the large and small scale sectors. The economy also needs the pursuit of an expansionary policy by waiving fiscal rules and procedures.

Chandrasekhar \textsuperscript{47} (2009) regards that liberalization and financial integration may not have resulted in excess exposure of the Indian Banking system to the Toxic effects that originated in the US and Europe. It has altered banking behavior. One Consequence is increased Exposure to risk, which is a matter of concern in itself and not just because, the Indian regulatory System is not yet geared to deal with such risk, if it can at all.

Jyotimoy Bhattacharya \textsuperscript{48} (2009) there is no reason why larger borrowing by the government need raise interest rates in the economy. It is a case of prejudice in favour of “Small” Government. That is the Reason for the continued currency of the view. Even if the expressed view is due to desire to keep foreign institutional investors happy, should it not be better to control speculative capital directly instead of recommending deflationary fiscal policies in the midst of recession.

Amaresh Samantaraya,\textsuperscript{49} (2009) Monetary policy is a key constituent of overall economic policy across the industrial and emerging economy for the purpose of stabilization of output and prices. In a standard textbook sequence, monetary expansion reduces interest rates and augments aggregate demand through increase in investment and consumption spending. This increase in aggregate demand exerts a temporary influence on real output, while the upward pressure on price is presumed to be of a permanent nature. In a similar fashion, monetary retightening leads to reduction of prices and a

\textsuperscript{46} V.P. Prasanth, Economic and Political Weekly, October 24, 2008, p.22
\textsuperscript{47} C.P.Chandra sekhar is with the centre for Economic studies and planning, Jawaharlal Nehru University, New Delhi, Economical and Political – Weekly, May 15, 2009, p. 8
\textsuperscript{49} Amaresh Bhattacharya, Reserve Bank of India, Econhomic and Political Weekly, May 22, 2009, p.46.
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temporary output loss. In practice, the conduct of monetary policies involves setting bank reserves or the short policy rate to obtain financialization and monetary conditions consistent with achieving the objectives of monetary policy.

**Rajagopal,** 50 (2009) records of the Government departments and financial institutions have their own audit sections/departments. However, corporate entities, excepting a few have not given importance to such internal audit systems. In the changed global environment an internal audit report should be processed honestly and remedial action on the irregularities should be indicated. Internal audit must be looked upon as a tool for the top management to manage their activities and to know how their administration and operational departments are functioning.

**Janaki Ramudu.** 51 (2010) has made a study “Working Capital Structure and Liquidity of Assets an Empirical Research on the Indian commercial vehicles industry”. He has found that of all the current assets across the industry, inventories formed the highest percentage followed by trade receivables and loans and advances whereas cash and bank balances formed a very negligible part.

**Aruna saini and others** 52 (2010) in their study analyze of liquidity management and trade –off between liquidity, risk and profitability. They found that the efficient management of liquidity could be ascertained by a firm’s ability to meet maturing debts or obligations.

**Conclusion**

Previous studies reviewed in this chapter are all related to financial performance of various industries seen relating to the financial performance of some specific industries. The present study systematically analyses the financial performance of the two selected cement units. First in depth analysis is done with reference to the Tamil Nadu Cements Corporation, Then the financial performance of Ramco Cements

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(Madras Cement Limited), is analyzed in detail. Then the financial aspects of both the cement units are compared and ratios are calculated. Statistical tools like t test, and multiple Regression tests etc., are used for understanding the financial performance. This study is unique in this aspect and a pioneer in analyze to the financial performance of two prominent cement units in Tamil Nadu.