CHAPTER - 2

LITERATURE REVIEW
CHAPTER - 2
LITERATURE REVIEW

REVIEW OF LITERATURE
A number of National and International research studies have been carried out on different aspects of financial performance by the researchers, economists and academicians in India. Different authors have analyzed performance in different aspects. Very few research work has been done on analysis of financial performance of Indian cement industry. Therefore, the present chapter reviews the empirical studies related with different aspects of financial performance. Literature review was divided in two category National review and International review.

NATIONAL REVIEW
Kaura, M. N and Bala Subramanian (1979) analyzed ten cement units during the period of study 1972 to 1977 shows that the financial performance of the selected cement companies evidenced by Profitability, Liquidity and capital structure ratios has declined. The non availability of funds has affected the modernization of plants and periodic rehabilitation of the kilns. Besides, the bottlenecks in supply of raw materials and power and non remunerative prices have reduced the capacity utilization, profits and cash flows. The profitability and liquidity position in many cement companies have been affected adversely because of the problems in supply of raw materials, transport and power.

Nagarajrao B.S and Chandar K (1980) analyzed the financial efficiency of cement companies for the selected period of the study 1970-71 to 1977-78. It can be analyzed profitability of selected cement companies has been found downward trend from 1970-71 to 1974-75 because the reason of inflation, rising of manufacturing cost, continuous fall in capacity utilization due to many reasons.

Kumar B. Das (1987) has made an analysis of the financial performance of the cement industry. it can be analyzed that the net fixed assets as a percentage of total assets decreased for the period 1970-71 to 1977-78 that was 553.5% to 44.04 % respectively. Current liabilities have increased than the current assets. Liquidity
The performance of the cement industry is not healthy during period of the study. The Debt Asset ratio has downward during the period of the study and Debt Equity ratio has slightly increased while net worth ratio has decreased over the years.

Nair N.K. (1991) has focused 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 analyzed the productivity and financial performance ratios of the cement industry with a view to identifying the major problem areas and the prospects for solving them.

Dr. Dinesh A. Patel (1992) have analyzed Financial Analysis - A Study of Cement Industry of India for the period of 1979-80 to 1988-89. He can analyzed the profitability of the cement industry, to examine the short term financial strength of the cement industry through the analysis of working capital management and to analyzed the long term financial strength through the analysis of capital structure.

Subir Cokavn and Rejendra Vaidha (1993) have analyzed to evaluate the performance of cement industry after decontrol. They 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 also 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) 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.

Chandrasckaran N (1994) has studied about the market structure of the Indian Cement industry like demand and supply. It was analyzed in that 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.

Srinivasa Rao.G and Indrasena Reddy.P (1995), in their study, analyzed the financial strength 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.

Govind Rao and Rao (1999) studied the impact of working capital on profitability in Indian cement industry. It can be analyzed both positive as well as negative correlations between working capital related ratios and profitability.

Rajeswari. N (2000), 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 in terms of Quick ratio and Current ratio. She concluded that necessary steps ought to be taken to improve the liquidity position of the company.
Nand Kishore Sharma (2002), in his Study on financial appraisal of cement industry in India, has found that the liquidity position was decreasing. 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 industry average and four companies lower than industry average. The solvency position in term of 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.

Ghosh S.K., and Maji S.G. (2004), in their paper, to examine the efficiency of Working capital management of the Indian cement companies from the year 1992-1993 to 2001-2002. They conclude from the study indicated that the Indian cement industry, as a whole, did not perform good perform during the selected period of the study.

Bardia (2006), in his study on Liquidity Management of Steel Authority of India Limited, has analyzed the overall performance 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 relationship between liquidity and profitability.

Amalendu Bhunia (2007), studied on liquidity management, analyzed the the short term financial strength through the analysis of the working capital management of selected iron and steel companies 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 performance 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.
**Sudipta Ghosho (2008)** has analyzed the liquidity performance of Tata Iron and Steel Company (TISCO). During the selected 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. 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)** have studied on production performance of Madras Cement Limited. It can be analyzed the comparative production performance of Madras cement and all other cement companies in India. Statistical method 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.

**Dharmendra S (2011)** analyzed that Liquidity is in closely relation with the profitability of the Indian Cement Industry as compared to the solvency ratios like Total Assets Ratio, Inventory Turnover Ratio, Debt-Equity Ratio and Operating Expenses Ratio.

**Harshad R. Tandel (2013)** Analyzed that the Financial Analysis of selected Plastic Manufacturing Industrial Units of Gujarat for the period 2000-01 to 2009-10. The main objective of this study was to analysis and evaluate the financial performance of selected companies in particular and the plastic industry in general with the help of composited such ratios like Profitability, Activity, Liquidity and solvency. He judge the financial performance with the help of Trend Analysis and Analysis of Variance. He can concluded that the liquidity and profitability performance was not good, but in terms of activity and solvency performance of industry was satisfactory.
INTERNATIONAL REVIEW
Alovsat Muslumov (2005) analyzed that the privatization was associated with a declining value added and shareholders’ profitability in Turkish cement industry. A decline in the value added and shareholders’ profitability were mainly caused by the decrease in return on assets. The decline in the return on asset was traced to declining asset productivity. These results are not consistent with previous cross-sectional privatization studies and number of country studies.

Adolphus J. Toby (2008) 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.

Haq and Sohail and Zaman and Alam (2011) analyzed The relationship between Working Capital Management and Profitability: A Case Study of Cement Industry in Pakistan. In this study to analyzed the relationship between working capital management and profitability. Researcher selected 14 companies in cement industry in the Khyber Pakhton khuwa Province (KPK) of Pakistan. The study is totally depend on secondary data collected from the audited financial statements of these companies which are listed in Karachi Stock Exchange for the period spanning 2004-2009. The data was analyzed using the statistical techniques of correlation coefficient and multiple regression analysis.

Hajihassani (2012) A Comparison of Financial Performance in Cement Sector in Iran. This study exhibited comparison of financial performance for the period study 2006 to 2009. It can be analyzed comparison of financial performance of selected cement companies by using various financial ratios and measures of cement companies working in Iran. Financial ratios are divided into three categories In this concludes that the performance of cement companies on the basis of profitability ratios different than on the basis of liquidity ratio and leverage ratio.
Dr. Abdul Ghafoor Awan, Pervaiz Shahid, Jahanzeb Hassan, Waqas Ahmad (2014) have analyzed the impact of Working Capital Management on performance of cement sector in Pakistan. The period of the study spanning from 2009 to 2013. The study is totally depend on secondary data collected from the audited financial statements of these companies which are listed in Karachi Stock Exchange. Return on was used as the dependent variable in order to test the impact of Working Capital Management on firm’s profitability and independent variables were, Inventory Turnover in Days, Cash Conversion Cycle, Current Ratio, Quick Ratio, Gross Working Capital, Average Payment, size of firm, and Funds allocated by government in Public Sector Development Program. Panel Data method is used to study the impact of Working Capital Management on profitability of Cement sector of Pakistan. He can concluded that cash conversion cycle, Inventory turnover in Days and Average Payment Period have negative relation with firm performance and their probability is significant. Current Ratio has proved statistically insignificant and has negative impact on Return on Equity in this study.

These Literature reviews were related to various industries such as cement, steel and sugar in India and abroad. Of these reviews, there are the major research conducted on the liquidity and profitability management through the accounting tools. But no comprehensive study was carried out on Financial Analysis of cement industry of India- A statistical Approach to analyze the financial performance of cement industry.