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Financial strength of select cement companies in India

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Abstract
Cement companies are one of the important sectors in India. Nowadays cement companies occupies an important position in the world, because constructions of the buildings are increasing day by day in the world. Indian economy is developing depends upon the growth of all the companies including cement companies. The objective of the study is to analyze the financial strength of the cement companies on the basis of ratios such as current ratio, quick ratio, debt equity ratio, fixed asset to net worth ratio and fixed assets to total debt ratio. The present study is purely based on secondary data.

Keywords: Current ratio, debt equity ratio, fixed asset to net worth, fixed assets to total debt, Short term and long-term, financial strength and quick ratio

Introduction
Financial appraisal provides a method of assessing the financial strength and weakness of the cement companies using the information provided in the financial statements. The financial strength is consisted of two words, such as ‘financial’ and ‘strength’. The term ‘financial’ refers to the various sources of finance. These are classified as owned sources and borrowed sources. The term ‘strength’ refers to the ability of the firm to meet claims when they become critical. There are two aspects of financial strength of every firm, namely, short term financial strength and long term financial strength. The short term financial strength relates to the solvency of the firm, while the long term financial strength depends on the structures that has been imposed on financing the fixed assets requirements. The bankers and creditors are mainly interested in the liquidity position of the firm that is the short term financial strength.

Statement of the problem
According to the United States Geological Survey (USGS) in 2014, India is one of the world’s largest cement producers and consumers, second only to China. In the modern world cement companies occupies an important position. Development of the company depends on several factors such as financial strength, leverage, personnel, technology, quality, and marketing. Out of this, financial strength plays an important role. Hence an attempt is made to study the financial strength of the cement companies.

Objective of the study
- To analyze the financial strength of cement companies in India.

Methodology of the study
The study is based on secondary data that has been collected from money control and annual reports of the respective cement companies. Researcher selected five cement companies in India, such as ACC cement, Ambuja cement, Barak Vally cement, Deccan cement and Indian cement. The period of study is 2004-2005 to 2014-2015.
Ratio Analysis was applied to analyze the financial strength of select cement companies. Various ratios used for the study are Current Ratio, quick ratio, Debt equity ratio, fixed assets to net worth ratio and fixed assets to total debts ratio. The statistical tools also used for the study such as Mean, Standard deviation and Co-efficient of variation.

Analysis and discussion
1. ACC Cement

Table 1: Financial Strength of ACC Cement

Year	Short Term Financial Strength		Long Term Financial Strength		
	Current Ratio	Quick Ratio	Debt Equity Ratio	Fixed Assets To Total Net Worth Ratio	Fixed Assets To Total Debts Ratio
2004-2005	0.58	0.42	0.50	1.36	2.71
2005-2006	0.77	0.61	0.25	0.93	3.79
2006-2007	0.86	0.55	0.07	0.55	7.55
2007-2008	0.89	0.61	0.10	0.70	7.20
2008-2009	0.67	0.42	0.09	0.69	7.34
2009-2010	0.68	0.43	0.08	0.78	9.70
2010-2011	0.88	0.63	0.07	0.86	12.26
2011-2012	0.72	0.46	0.01	0.79	68.96
2012-2013	0.84	0.57	0.54	0.70	11.34
2013-2014	0.81	0.53	0.54	0.68	11.65
MEAN	0.77	0.52	0.23	0.80	14.25
S.D	0.10	0.08	0.22	0.22	19.49
C.V	13.54	16.05	0.96	27.61	136.76

Sources: money control and respective company annual reports

Table 1 shows the financial strength of ACC cement during the year 2004-2005 to 2013-2014. The current ratio of the company has increased from 0.58 times in the year 2004-2005 to 0.81 times in the year 2013-2014, whereas, the quick ratio is fluctuating during the study period. The average of the above two ratios were 0.77 and 0.52 times respectively. This indicates that financial strength of the ACC cement was not satisfactory. The debt equity ratio decreased from 0.50 times in the year 2004-2005 to 0.01times in the year 2011-2012. It indicated that the little dominance of debt capital in the capital structure of the company. The fixed asset to net worth was decreased during the year 2004-2005 to 2013-2014. This indicated that the coverage of fixed assets to claims of outsiders has increased as the company settled the claims during the study period. Fixed assets to total debts ratio shows an increasing trend during the study period.

2. Ambuja Cement

Table 2: Financial Strength of AMBUJA Cement

Year	Short-Term Financial Strength		Long-Term Financial Strength		
	Current Ratio	Quick Ratio	Debt Equity Ratio	Fixed Assets To Total Net Worth Ratio	Fixed Assets To Total Debts Ratio
2004-2005	0.76	0.35	0.52	1.03	1.99
2005-2006	1.08	0.70	0.25	0.71	2.87
2006-2007	1.03	0.64	0.07	0.63	8.95
2007-2008	1.26	0.74	0.05	0.56	11.06
2008-2009	0.89	0.57	0.03	0.53	20.76
2009-2010	1.07	0.75	0.01	0.77	86.54
2010-2011	1.17	0.90	0.01	0.76	144.54
2011-2012	1.22	0.95	0.32	0.66	169.28
2012-2013	1.28	1.01	0.37	0.64	207.97
2013-2014	1.27	1.04	0.34	0.61	326.19
Mean	1.10	0.77	0.20	0.69	98.02
S.D	0.17	0.22	0.19	0.14	111.19
C.V	15.76	28.21	93.94	20.68	113.44

Sources: money control and respective of company annual reports.

Table 2 shows the financial strength of Ambuja cement during the year 2004-2005 to 2013-2014. The current ratio of the company has increased from 0.76 times in the year 2004-2005 to 1.27 times in the year 2013-2014. The quick ratio has increased during the study period. The average of the above two ratios were 1.10 and 0.77 times respectively. This ratio indicates that the financial strength of Ambuja cement was not satisfactory. The debt equity ratio was decreased from 0.52 times in the year 2004-2005 to 0.01times in the year 2010-2011 and subsequent years showed an increasing trend. The fixed assets to net worth ratio decreased during the study period. Fixed assets to total debts ratio shows an increasing trend during the study period, this indicated that the coverage of fixed assets to claims of outsiders has increased as the company settled the claims during the study period.

3. Barak valley cement

Table 3: Financial Strength of Barak Valley Cement

Year	Short-Term Financial Strength		Long-Term Financial Strength		
	Current Ratio	Quick Ratio	Debt Equity Ratio	Fixed Assets To Total Net Worth Ratio	Fixed Assets To Total Debts Ratio
2004-2005	3.50	3.08	0.79	0.79	1.00
2005-2006	0.91	2.44	10.96	1.09	1.28
2006-2007	0.79	2.89	22.66	0.77	1.00
2007-2008	0.88	2.41	17.99	0.65	1.54
2008-2009	0.76	2.88	16.79	0.62	1.62
2009-2010	0.60	2.49	20.12	0.51	1.23
2010-2011	0.65	2.72	0.58	0.49	0.83
2011-2012	0.74	2.78	0.80	0.57	0.72
2012-2013	0.84	2.11	0.72	0.54	0.75
2013-2014	0.85	1.62	0.69	0.55	0.79
Mean	1.05	2.54	9.21	0.66	1.08
S.D	0.87	0.43	9.42	0.18	0.33
C.V	82.29	17.00	102.26	27.82	30.41

Sources: money control and respective company annual reports.

Table 3 shows the financial strength of Barak valley cement during the year 2004-2005 to 2013-2014. The current ratio of the company has fluctuating from 3.50 times in the year 2004-2005 to 0.85 times in the year 2013-2014, whereas, the quick ratio shows a decreasing trend during the study period. The average of the above two ratios were 1.05 and 2.54 times respectively. This ratio indicates that the financial strength of Barak valley cement was not satisfactory. The debt equity ratio is fluctuating during the study period. The fixed asset to net worth ratio is also fluctuating during the study period. The ratio of fixed assets to total debts has declined from 1.00 in the year 2004-2005 to 0.79 in the year 2013-2014. The fixed assets to total debts ratio shows a decreasing trend during the study period, this indicated that the coverage of fixed assets to claims of outsiders has decreased as the company was not able settle the claims during the study period.

4. Deccan cement

Table 4: Financial Strength of Deccan Cement

Year	Short-Term Financial Strength		Long-Term Financial Strength		
	Current Ratio	Quick Ratio	Debt Equity Ratio	Fixed Assets To Total Net Worth Ratio	Fixed Assets To Total Debts Ratio
2004-2005	1.21	0.95	0.26	1.12	4.27
2005-2006	1.61	1.40	0.27	0.96	3.55
2006-2007	1.20	1.63	0.28	0.76	2.72
2007-2008	1.03	1.24	1.16	0.54	0.46
2008-2009	0.80	0.92	1.90	2.30	1.21
2009-2010	0.66	0.87	1.93	2.52	1.31
2010-2011	0.79	0.81	1.70	2.45	1.44
2011-2012	0.85	0.91	1.17	1.84	1.57
2012-2013	0.84	0.82	1.05	1.76	1.67
2013-2014	0.82	0.71	0.89	1.62	1.82
Mean	0.98	1.03	1.06	1.59	2.00
S.D	0.29	0.30	0.65	0.72	1.16
C.V	29.10	28.95	61.21	45.10	58.12

Sources: money control and respective company annual reports.

Table 4 shows the financial strength of Deccan cement during the year 2004-2005 to 2013-2014. The current ratio of the company has decreased from 1.21 times in the year 2004-2005 to 0.82 times in the year 2013-2014, whereas, the quick ratio shows a fluctuating trend during the study period. The average of the above two ratios were 0.98 and 1.03 times respectively. This ratio shows the financial strength of the Deccan cement was not satisfactory. The debt equity ratio was fluctuating during the study period. The fixed asset to net worth ratio is also fluctuating during the study period. The fixed assets to total debts ratio is increased during the 2004 - 2005 to 2006-2007 and subsequent years showed an increasing trend, this indicated that the coverage of fixed assets to claims of outsiders has decreased as the company settled the claims during the study period.

5. India cement

Table 5: Financial Strength of India Cement

Year	Short-Term Financial Strength		Long-Term Financial Strength		
	Current Ratio	Quick Ratio	Debt Equity Ratio	Fixed Assets To Total Networth Ratio	Fixed Assets To Total Debts Ratio
2004-2005	1.10	2.16	5.95	3.42	0.65
2005-2006	1.53	2.62	1.80	1.36	0.80
2006-2007	2.00	2.97	1.48	1.41	0.98
2007-2008	1.43	1.49	0.70	1.05	1.51
2008-2009	1.13	1.23	0.67	1.06	1.58
2009-2010	1.46	1.54	0.60	0.94	1.55
2010-2011	1.27	1.57	0.52	0.93	1.79
2011-2012	0.95	1.36	0.63	1.01	1.60
2012-2013	1.00	1.46	0.75	1.09	1.35
2013-2014	1.08	1.34	0.76	1.00	1.42
Mean	1.30	1.77	1.39	1.33	1.32
S.D	0.32	0.60	1.66	0.75	0.38
C.V	24.63	33.75	119.60	56.77	28.74

Sources: money control and respective company annual reports.

Table 5 shows the financial strength of India cement during the year 2004-2005 to 2013-2014. The current ratio and quick ratio of the company are fluctuating during the study period 2004-2005 to 2013-2014. The average of the above two ratios were 1.30 and 1.77 times respectively. This ratio shows the financial strength of the India cement was not satisfactory. The debt equity ratio decreased from 5.95 times in the year 2004-2005 to 0.76 times in the year 2013-2014. The fixed assets to net worth ratio show a fluctuating trend during the study period. The fixed assets to total debts ratio is also fluctuating during the study period, this indicated that the coverage of fixed assets to claims of outsiders is fluctuating.

Suggestions

1. The current ratio of all the selected companies are not up to the standard, hence the companies must improve their current ratio to maintain the liquidity position by increasing the current assets.
2. The quick ratio of ACC cement and Ambuja cement was not satisfied during the study period; hence the companies should maximize the cash and bank balance.
3. Debt equity ratio of the Barak Valley and Deccan cement companies were fluctuating during the study period, so the companies should maintain the debt and equity position under control.

4. Fixed assets to total debts ratio of ACC cement and Ambuja cement was very high during the study period, so the companies should minimize the fixed assets to total debts ratio by reducing the fixed assets.

Conclusion
India is the second largest producer of cement in the world. No wonder, India's cement industry is a vital part of its economy, providing employment to more than a million people, directly or indirectly. Ever since it was deregulated in 1982, the Indian cement industry has attracted huge investments, both from Indian as well as foreign investors. India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent major government initiatives such as development of 98 smart cities are expected to provide a major boost to the sector.

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