

A Study on Investment Analysis of Selected Cement Companies in India - An Annual Growth Analysis

Dr.M.GANESAN,
Assistant Professor in Commerce,
Rathinam College of Arts and Science (Autonomous),
Eachanari, Coimbatore-641021.

ABSTRACT

India is the world's second largest producer of cement after China, with cement companies adding nearly 11 million tonnes (MT) capacity every year, taking to its total installed capacity to 366 MT by March 2014. Of the large, medium and small cement plants, the large ones numbering 188 have accounted for 97% of the total installed capacity in the country. Of these large plants, 77 are located in the states of Andhra Pradesh, Rajasthan and Tamil Nadu. In quantitative terms they alone have contributed for the installed capacity of 198.30 MT by March 2008. To meet the rise in demand, cement companies are expected to add 56 million tonnes (MT) capacity over the next three years. The cement capacity in India may register a growth of 8% by next year end to 395 million tonnes (MT) from the current level of 366 million tonnes (MT) by March 2014, and also its increase further to 421 million tonnes (MT) by the end of 2017. This article analyses the actual and trend performance of selected cement companies which are listed in BSE/NSE in India

Keywords--- Million tones, Investment, Ultra Tech, Dalmia Cements. India Cements, BSE/NSE.

1. INTRODUCTION

The cement industry is energy intensive and thus power costs form the most critical cost component in cement manufacturing, of about 35% to total cost of production. The issues here is the technology used (dry versus wet process), fuel efficiency (efficient use of coal/lignite/any other material used for burning) and power efficiency (power availability, use of alternative fuels, unit power consumption, cost and availability of captive power). The scope for cost reduction through better energy efficiency may now be limited for better performing companies since they have already reached the best feasible levels.

The investment analysis of cement companies depends upon how efficiently its major cost components are handled and how efficiently the increase in demand for cement is capitalized and converted into profit. This study is focused on finding out why the investment analysis of the cement companies varies from unit to unit. This study will be of immense help to the society by enabling the prospective investors and other stakeholders of the cement industry in India to take economic and profitable decisions. The selected companies in cement industry in India will also be able to know their existing financial strength by this study so as to take the policy decisions relating to finance in future.

The primary objective of making investment in any business is to obtain satisfactory return on the capital invested. Hence, the return on capital employed is used a measure of success of a business realizing this objective. It is the chief profitability ratio and the most important measure of performance as it indicates the comparative efficiency with which the whole company runs properly. Therefore, return on capital employed is a valuable yardstick to measure the overall performance of an undertaking. The return on capital employed shows the equity power of the capital invested. It indicates how the management used the funds supplied by creditors and owners. The higher the more efficient can be considered the enterprises in using funds entrusted to it. The comparison of this ratio, with ratios of similar business organizations will reveal the relative operating efficiency of business enterprise. Further, an investor can judge the future prospects of business enterprises by taking into consideration the earning capacity of capital employed.

2. OBJECTIVES OF THE STUDY

a).To studies the actual and trend performance of selected cement companies which are listed in BSE/NSE.

2.1. Sampling Design

The stratified random sampling method has been employed in the study, according to the prowess corporate database developed by CMIE, (Centre for Monitoring Indian Economy) there are 26 BSE and 20 NSE listed companies located in India, Out of which 10 cement companies listed in both BSE and NSE are taken for the study based on their Net Sales above Rs.2,000 Cr. The selected companies are as follows.

Company Name	Net Sales (Rs.cr) updated on 2018
Ultra Tech Cement Ltd (ULC)	20,279.80
Associated Cement Company Ltd (ACC)	11,738.21
Ambuja Cements Ltd (AMC)	9,978.12
Shree Cements (SHC)	5,887.31
Prism Cement Ltd (PRC)	4,964.86
India Cements Ltd (INC)	4,597.04
Ramco Cements Ltd (RAC)	3,644.89
J. K. Cement Ltd (JKC)	2,911.97
Birla Corporation Ltd (BIC)	3,209.00
JK Lakshmi Cement Ltd (JKL)	2,056.60

SOURCE: CMIE

2.2. PERIOD OF THE STUDY

This study covers the period of 10 years from 2004-2005 to 2013-2014 and the essential data for this period have been collected for 10 companies. The financial year runs from 1st April to 31st March every year.

2.3. HYPOTHESES OF THE STUDY

In tune with the objectives of the study the following hypotheses have been framed.

1. There is no significant difference between actual and trend values in selected cement companies.

3. REVIEW OF LITERATURE

Burange and Shruti Yamini (2008)¹ dealt with the Performance of Indian Cement Industry - The Competitive Landscape. The Cement Industry according to them was experiencing a boom on account of the overall growth of the Indian Economy primarily because of increased industrial activity, and expanding investment in the cement sector. The industry experienced a complete shift in the technology of production. The competitiveness among the firms in Indian Cement Industry had also been evaluated for the year 2006-2007, out of seventeen firms (90.21 per cent of the total market share); about 47 per cent had recorded, above industry average performance in the overall competitiveness index.

Sathya (2012)² had studied in her article on “Analysis of Composite Profitability Index of the Cement Companies in India”. The return of a business might be measured by studying the profitability of investment in it. Profitability might be defined as the ability of given investment to earn a return from its use. This study based on the secondary data from a sample of 30 cement companies, attempted to measure the composite profitability of a firm by a single index. The analysis showed that in order to rank the selected companies in terms of composite profitability, ratio-wise scores had been aggregated and the firm getting the highest total score had been ranked as 1 and the firm securing the lowest total score had been ranked as 30.

Asha.Sharma (2013)³ had found perfect correlation between liquidity and profitability keeping in view the maintained amount of finance, particularly in profitability, liquidity and working capital. The study was on investigating the relationship between the aggressive and conservative financial performance analysis and financial policy and how it impacted on profitability. It further examined the efficiency of utilization among the working capital practices of the finance across different companies.

4. STATISTICAL TOOLS USED FOR ANALYSIS

- 1) ANOVA

TABLE NO. 4.1

ACTUAL AND TREND VALUE FOR INVESTMENT OF CEMENT COMPANIES

Rs. in Crores

Year	ULC		ACC		AMC		SHC		PRI	
	Actual value	Trend value	Actual value	Trend value	Actual value	Trend value	Actual value	Trend value	Actual value	Trend value
2004-05	238.09	-831.15	326.69	106.28	1010.97	843.18	456	130.75	78.9	90.306
2005-06	184.79	-277.97	333.8	355.51	1125.06	890.29	785	347.36	87.34	127.286
2006-07	172.39	275.22	543.09	604.74	1133.12	937.41	348	563.97	141.87	164.266
2007-08	483.45	828.4	844.81	853.98	1288.94	984.53	503	780.59	258.76	201.246
2008-09	170.9	1381.59	679.08	1103.21	332.39	1031.65	591	997.2	203.81	238.226
2009-10	1034.8	1934.77	1475.64	1352.45	727.01	1078.76	844.83	1213.81	326.67	275.206
2010-11	1669.55	2487.95	1702.67	1601.68	625.95	1125.88	1592.24	1430.42	354.31	312.186
2011-12	3730.32	3041.14	1624.95	1850.92	864.31	1173	1196.46	1647.03	390	349.166
2012-13	3788.77	3594.32	2553.55	2100.15	1655.84	1220.12	2535.2	1863.64	378.24	386.146
2013-14	5108.72	4147.51	2194.02	2349.38	1788.45	1267.23	2203.29	2080.25	463.1664	423.126
T.E	$Y_t = -1384 + 553*t$		$Y_t = -143 + 249*t$		$Y_t = 796 + 47.1*t$		$Y_t = -86 + 217*t$		$Y_t = 53.3 + 37.0*t$	

Source: CMIE Report Reg Eqn= 0.0 + 1.00 *T T.E-Trend Equation

TABLE NO. 4.2

ACTUAL AND TREND VALUE FOR INVESTMENT OF CEMENT COMPANIES

Rs. in Crores

Year	INC		RAC		BIC		JKC		JKL	
	Actual	Trend	Actual	Trend	Actual	Trend	Actual	Trend	Actual	Trend

	value	value	value	value	value	value	value	value	value	value
2004-05	34.69	-148.511	79.62	34.688	110.2	130.66	123	101.2	171.61	71.066
2005-06	34.84	-54.802	88.67	58.705	175.31	276.12	145	127.933	167	119.026
2006-07	34.84	38.906	88.75	82.721	420.08	421.58	138	154.667	58.11	166.987
2007-08	55.07	132.614	88.76	106.738	634	567.04	146	181.4	67	214.947
2008-09	129.28	226.322	88.61	130.755	552.29	712.5	178	208.133	88.91	262.907
2009-10	158.97	320.03	88.74	154.771	1141.65	857.96	236	234.867	480.53	310.867
2010-11	313.97	413.738	88.83	178.788	1169.21	1003.42	278	261.6	527.77	358.827
2011-12	160.31	507.446	266.47	202.805	1044.81	1148.88	312	288.333	453.75	406.787
2012-13	851.96	601.154	265.77	226.821	1270.73	1294.34	361	315.067	406.46	454.748
2013-14	957.83	694.863	283.41	250.838	1334	1439.79	298	341.8	447.73	502.708
T.E	$Y_t = -242 + 93.7*t$		$Y_t = 10.7 + 24.0*t$		$Y_t = -15 + 145*t$		$Y_t = 74.5 + 26.7*t$		$Y_t = 23.1 + 48.0*t$	

Source: CMIE Report Reg Eqn= 0.0 + 1.00 *T T.E-Trend Equation



TABLE NO. 4.3

ANOVA FOR INVESTMENT OF CEMENT COMPANIES

S.No	Name of the company	R ²	F-value	p-value	S/NS
1	ULC	81.1	34.41	0.000*	S
2	ACC	90.5	76.07	0.000*	S
3	AMC	10.1	0.90	0.371	NS
4	SHC	73.2	21.85	0.002*	S
5	PRI	85.8	48.45	0.000*	S
6	INC	67.7	16.77	0.003*	S
7	RAC	66.3	15.77	0.004*	S
8	BIC	91.1	81.53	0.000*	S
9	JKC	88	58.49	0.000*	S
10	JKL	57.3	10.74	0.011**	S

*p<0.01 **p<0.05 S-Significant NS-Not Significant

The actual value and the computed trend values of investment of the selected cement companies, during the study periods from the year 2004-2005 to 2013-2014 have been represented in Tables 4.27 and 4.28. Based on the actual value and the computed trend values of investment of the selected study units, the fitted trend and regression equations are also obtained.

The Table no 4.28 clearly shows the ANOVA for investment of selected cement companies. There are significant differences in case of **ULC, ACC, PRI, BIC, JKC, SHC, INC, RAC** and **JKL** in one and five per cent level of significance. There is no significant difference between actual and trend values of **AMC**.

It is inferred from the table that there are significant difference between actual and trend values in **ULC, ACC, PRI, BIC, JKC, SHC, INC, RAC** and **JKL** in one and five per cent level of significance. There is no significant difference between actual and trend values of **AMC**. So, the null hypothesis is rejected while the alternative hypothesis is accepted for these cement companies.

TABLE NO. 4.4

PROJECTIONS FOR INVESTMENT OF CEMENT COMPANIES

Rs in Crores

Year	ULC	ACC	AMC	SHC	PRI	INC	RAC	BIC	JKC	JKL
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2014-15	4700.69	2598.62	1314.35	2296.86	460.106	788.57	274.855	1585.25	368.533	550.668
2015-16	5253.87	2847.85	1361.47	2513.48	497.086	882.28	298.871	1730.71	395.267	598.628
2016-17	5807.06	3097.09	1408.58	2730.09	534.066	975.99	322.888	1876.17	422	646.588
2017-18	6360.24	3346.32	1455.7	2946.7	571.046	1069.7	346.905	2021.63	448.733	694.549
2018-19	6913.43	3595.56	1502.82	3163.31	608.026	1163.4	370.921	2167.09	475.467	742.509

Source: Computed

The projections resulted for investment of the selected cement companies by linear growth models during the years from 2014-2015 to 2018-2019 are listed in table no 4.29. They show that **ULC** and **ACC** have more investment when compared with all the other cement companies

The table predicts that during the year 2014-2015 to 2018-2019 **AMC, SHC, PRI, INC, BIC, JKC** and **JKL** are having increasing trend in investment. In the case of **RAC** is expected to have the least investment during the year 2018-2019.

So, we can conclude from the analysis that the **ULC** (6913.43) and **ACC** (3595.56) are having the steadily increasing investment when compared to the other cement companies and **RAC** (370.921) has least investment during the projection period from the year 2014-2015 to 2018-2019.

II.CONCLUSION

From the empirical analysis of production functions, various economists have concluded that technological and financial model changes are important factors which decide the growth of the cement companies. India's cement production increased at a compound annual growth rate (CAGR) of 6.7 percent which in quantitative terms is 270.32 million tonnes over FY2007–2015. As per the 12th Five Year Plan(2012–2017), production is expected to reach 407 million tonnes by the end of FY2017. The Government of India is strongly focused on infrastructure development to boost economic growth and is aiming for 100 smart cities. It plans to increase investments in infrastructure by US\$ 1 trillion in the 12th Five Year Plan (2012–2017). The government also intends to expand the capacity of the railways and the facilities for handling and storage to ease the transportation of cement and reduce transportation costs. These measures would lead to increased construction activities which in turn will definitely boost cement industry with bright prospects for increase in demand for cement, aggressive efforts for achieving double digit growth of the economy, the cement industry is poised for buoyant, ignited and impressive growth in the years to come.

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