

## **Liquidity Analysis of Selected Cement Companies of India**

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## **Abstract:**

The study on selected cements companies of India, regarding impact of Liquidity for the five financial years from 2018 to 2022. India is a developing country and it has a lot of opportunities in the infrastructure, construction and other many sectors and the cement sector is expected to increase the production and get largely benefit from it. Indian government take initiatives such as development of Smart cities in many of the states are expected to provide a major boost to the cement sector. The Indian cement industry is dominated by a few companies. More than seventy percent of production happening by top of the twenty cement companies in the India. For the study purpose five companies are selected and also taken five years data of the companies. Ratio analysis and trend analysis used for analysis. With the use of various formulas and trend we tried to identify the liquid position and need of working capital of the selected companies.

**Key Words:** Liquidity, Working Capital, Conversion Period

## **Introduction of Industry:**

The global cement market size was valued at Rs. 326810 lakhs in 2021 and is projected to grow from Rs. 340610 lakhs in 2022 to Rs. 481730 lakhs by 2029. The cement industry development concern with the country economy. China National Building Material Co., Ltd. (CNBM), Beijing, China, 1984 is the world's first largest cement producing company. UltraTech Cement Ltd. Mumbai, India, 1983 is the world's fifth largest cement producing company. India is the second largest producer of cement in the world. 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 as well as construction sector and the cement sector is expected to largely benefit from it. Indian government take initiatives such as development of Smart cities in many of the states are expected to provide a major boost to the cement sector.

Expecting such developments in the country and aided by suitable government foreign policies, several foreign players invested in the country in the recent past. A significant factor which aids the growth of this sector is the ready availability of the raw materials for making cement, such as limestone and coal.

## **Market Size:**

The urban housing, government's infrastructure and rural development is the biggest demand driver of cement, accounting for about 67 per cent of the total consumption in India, the industry is expected to close FY23 with a production of 380-390 million ton. The other major consumers of cement include infrastructure at 13 per cent, commercial construction at 11 per cent and industrial construction at 9 per cent. Cement industry to close financial year 2023 with 380 million tons of production... The cement industry is expected to close financial year 2023 with a production of about 380-390 million tons, with a year-over-year increase of 8-9%, as per a report by CARE Advisory and Research. 3.85 lakh homes to be completed in 2022, led by Delhi-NCR...

India's has produced total cement 356 million tones in the year 2022. The production of cement was 296 million tons in the year 2021. The growth of cement industry is expected to be 5.1 per cent in during a period, because of the government's focus on infrastructural and new sustainable construction development. The Indian cement industry is dominated by a few companies. The top 20 cement companies account for almost 70 per cent of the total cement production of the country.

## **Concept of Liquidity or Working Capital:**

Working capital, often known as liquidity, can be divided into two categories: gross working capital and net working capital.

### **Gross Working Capital:**

Gross working capital is the amount of money an organization has invested in current assets that may be quickly converted into cash during normal business operations, often within one accounting year.

### **Components of Current Assets:**

Cash on hand, bank balances, payments to be paid, and a variety of debtors (less provision for bad debts) The main elements of working capital are short-term loans and advances, inventories of raw materials, work-in-progress, stores and spares, finished goods, temporary investment or surplus, pre-paid expenses, and actual income.

### **Net Working Capital:**

Liquidity is defined as the difference between current assets and current liabilities, or net working capital, in a more specific sense. When current assets exceed current liabilities that are scheduled to be paid in the usual course of business within a short period of time, often in one accounting year, out of the current assets on the business's income, net working capital may be positive or negative.

### **Components of Current Liabilities:**

The elements of current liabilities include bills due, varying creditors' accounts payable, unpaid expenses, short-term loans, advances and deposits, dividends due, bank overdrafts, and tax provision.

### **Goal of Working Capital Management:**

Research is a form of artistic scientific enquiry. The goal of the current study is to examine the liquidity management of the Indian cement sector. Liquidity management seeks to increase the firm's worth as much as possible. This is achieved by concentrating on the size, timing, and risk of the cash flow as well as the needed returns. The coordination of the firm's current assets and current liabilities is the main goal of liquidity management. The foundation for calculating numerous statistical measurements and accounting.

### **Classification of Working Capital:**

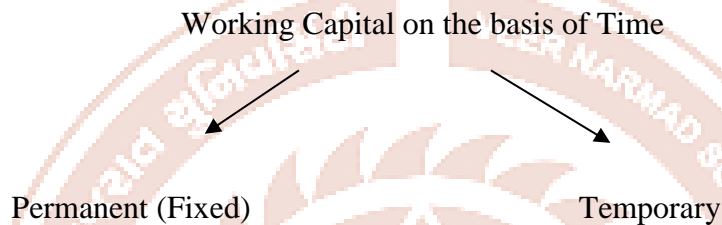
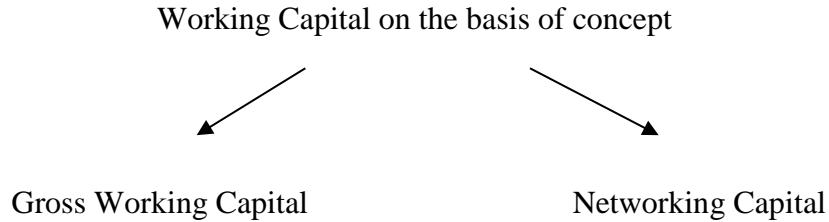
Working capital may be classified into two ways:

1. On the basis of concept

Gross and Net Working Capital

## II. On the basis of time

Fixed and variable working capital



### **Research Design:**

The art of scientific enquiry is known as research. The current study is an attempt to investigate the liquidity management of the cement sector in India using accounting calculations and numerous statistical metrics.

### **Objectives of the Study:**

1. To examine the liquidity management of particular Indian cement companies.
2. To contrast the liquidity management strategies used by a few Indian cement companies.
3. To compile the results and make recommendations for improving the liquidity management of a few Indian cement companies.

## **Sample Design:**

Based on market capitalization, the top five cement companies are chosen for the research effort.

1. Ultratech cement
2. Shree cement
3. Ambuja cement
4. Dalmia cement
5. ACC

## **Sources of Data:**

The current analysis relies solely on secondary data. Data on profit and loss accounts, balance sheets, and other critical ratios will be gathered from selected cement businesses' published annual reports. In addition, books, journals, periodicals, reports, newspapers, and various websites have been mentioned. Lastly, the data will be correlated, and the liquidity analysis will be performed.

## **Tools and Techniques:**

For the current investigation, the following tools and procedures can be used:

- 1) Ratio Analysis
- 2) Trend Analysis

## **Period of the Study:**

The secondary data will be gathered for the five-year period from 2017–2018 to 2021–2022, encompassing the profit and loss account, balance sheet, and key ratios of working capital management of chosen cement companies in India.

## **Scope of the Study:**

Many studies have examined the financial performance of various segments of the cement business periodically using pertinent parameters in accordance with their declared study goals. The work's scope goes beyond financial performance review to include finding the cause or causes of better or worse financial performance among various sectors of cement companies.

**Table-1: Working Capital Ratios**

Type of Ratios	Explanations	Calculation
<b>The Inventory Conversion Period (ICP)</b>	Inventory Conversion Period is the time required to convert inventory into cash	$\frac{\text{Average Stock Value}}{\text{Cost of Sales}} \times 365$
<b>Debtors' Conversion Period (DCP)</b>	Debtors' Conversion Period is the time required to collect the cash from debtors.	$\frac{\text{Average Debtors}}{\text{Net Credit Sales}} \times 365$
<b>Creditors' Conversion Period (CCP)</b>	Creditors' Conversion Period is the length of time the firm is able to defer payments on various Resource purchases.	$\frac{\text{Average Creditors}}{\text{Cost of Sales}} \times 365$
<b>Cash Conversion Cycle (CCC)</b>	Cash Conversion Cycle is the length of time between a firm's purchase of inventory and the receipt of cash from accounts receivable	$CCC = ICP + DCP - CCP$

**Findings:**

**The Inventory Conversion Period (ICP)**

Company Name	2018	2019	2020	2021	2022
<b>Ultratech</b>	37.89	31.83	34.96	35.24	38.55
<b>Shree</b>	55.15	43.83	44.78	50.74	60.03
<b>Ambuja</b>	37.06	38.73	24.39	30.67	42.49
<b>Acc</b>	0.00	0.00	0.00	0.00	0.00
<b>Dalmia</b>	29.39	24.37	27.14	42.32	39.63

### Debtors' Conversion Period (DCP)

Company Name	2018	2019	2020	2021	2022
<b>Ultratech</b>	19.87	19.55	16.85	21.89	21.31
<b>Shree</b>	15.20	14.42	25.98	23.39	17.57
<b>Ambuja</b>	13.32	7.76	6.26	16.50	15.64
<b>Acc</b>	24.33	32.06	41.09	115.73	64.76
<b>Dalmia</b>	11.29	12.22	14.95	21.89	18.86

### Creditors' Conversion Period (CCP)

Company Name	2018	2019	2020	2021	2022
<b>Ultratech</b>	39.22	37.46	29.64	27.64	29.13
<b>Shree</b>	20.51	23.32	16.56	14.40	27.83
<b>Ambuja</b>	26.69	30.28	28.77	30.09	36.89
<b>Acc</b>	8.11	7.40	12.09	15.58	35.32
<b>Dalmia</b>	43.83	38.33	33.69	37.09	54.27

### Cash Conversion Cycle (CCC)

Company Name	2018	2019	2020	2021	2022
<b>Ultratech</b>	18.54	13.92	22.17	29.48	30.73
<b>Shree</b>	49.83	34.93	54.20	59.74	49.78
<b>Ambuja</b>	23.69	16.20	1.87	17.08	21.23
<b>Acc</b>	16.22	24.66	29.01	100.15	29.44
<b>Dalmia</b>	-3.16	-1.74	8.40	27.12	4.22



## Trend Analysis

### Current Assets:

Company Name	2018	2019	2020	2021	2022
Ultratech	100.00	120.25	139.91	218.08	180.13
Shree	100.00	70.03	119.74	126.30	134.93
Ambuja	100.00	119.30	77.19	118.02	189.48
Acc	100.00	87.66	87.89	70.90	18.51
Dalmia	100.00	117.16	132.14	148.29	182.39

### Current Liability:

Company Name	2018	2019	2020	2021	2022
Ultratech	100.00	131.67	129.17	177.39	173.63
Shree	100.00	66.96	128.36	118.48	153.64
Ambuja	100.00	119.70	122.29	144.20	146.32
Acc	100.00	38.92	17.73	119.21	14.29
Dalmia	100.00	97.00	96.79	98.98	123.81

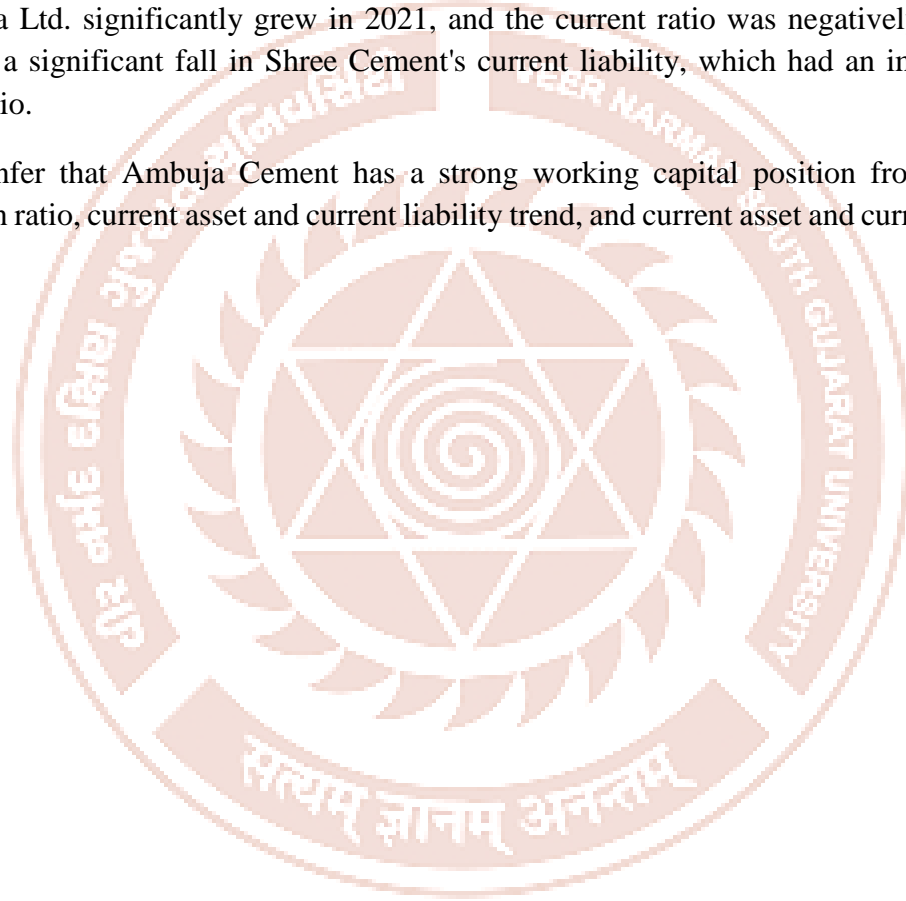
### Current Ratio (Based on trend):

Company Name	2018	2019	2020	2021	2022
Ultratech	1.00	0.91	1.08	1.23	1.04
Shree	1.00	1.05	0.93	1.07	0.88
Ambuja	1.00	1.00	0.63	0.82	1.29
Acc	1.00	2.25	4.96	0.59	1.30
Dalmia	1.00	1.21	1.37	1.50	1.47

## Conclusion:

Shree Cement is one of the chosen companies with a quick inventory conversion period as Acc Cement. Contrarily, Ultratech cement has the least amount of volatility in its inventory turnover ratio. Due to its tight credit strategy, Ambuja Cement is also recovering quickly in terms of debtor conversion ratio. Because Dalmia Cement has a subpar recovery strategy, the conversion period for debtors is excessively long. When paying debtors, ACC Cement uses the longest credit days. The company's cash conversion period, which is relatively high, shows that it has enough of working capital available and is not experiencing a liquidity crisis. Current assets are significantly rising in Ultratech and Ambuja Cement. The current liabilities of Dalimia Ltd. significantly grew in 2021, and the current ratio was negatively impacted. 2019 saw a significant fall in Shree Cement's current liability, which had an impact on its current ratio.

We can infer that Ambuja Cement has a strong working capital position from the cash conversion ratio, current asset and current liability trend, and current asset and current liability trend.



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