International Journal of Advance Research in Computer Science and Management Studies

Solvency Position of Select Cement Companies in Tamilnadu

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Abstract: The present study spotlights on how effectively the cement companies in Tamilnadu deal with and measures their solvency. The study detained to Cement Companies like KCP Cement Company, Madras Cement Company and India Cement Company. The Companies are located in Tamilnadu. The overall act of the selected cement companies are evaluated through their solvency positions.

Keywords: Solvency, KCP, Madras and India Cement Company.

I. INTRODUCTION

Finance is an essential term which is used by all class of people. From a normal person as well as leading businessman, everyone needs finance to meet their requirements. A common men's requirement is meager when compared to Business Man. Thus, business man is in a position to spend more finance in his business for which he needs more skills in order to manage the finance. A business cannot be started without money. The investment is made with an expectation of getting returns from it. If he is not able to manage the money invested, otherwise he suffers loss. No businessman likes to suffer loss instead they wish high rate of return for the money, which they invested in the business.

Nowadays, businessman starts investing in diversified field with a cautionary sense. In order to invest in various or in any one of the field he should be aware of what should and should not be done. Financial Management helps the businessman to make his decisions precisely.

Financial requirement of a Company comprises of two phases that is a Company needs finance to meet its Short term and Long Term requirements. Short term funds are used by the company to purchase Raw Materials, for the payment of wages, etc. On the other hand the company needs huge funds for the purchase of Assets such as Machinery, Land and Building and so on. The Company cannot afford their own money for both their short term and Long term investment. In order to meet their financial needs apart from using their funds the Companies borrow funds from third parties such as Banks, Creditors, Financial Institutions and so on. After a certain period the credit or the borrowings should be repaid. In order to keep a check on their financial performance the Companies use many techniques to measure their ability. The most commonly measuring financial instruments are Ratios, Trends and Comparative Statements.

II. REVIEW OF LITERATURE

- Rajeswari (2000) studied "The liquidity management of Tamilnadu cement corporation limited, Alangulam – A case study". It can be concluded from the analysis; the liquidity position of TANCEM is not stable. Regarding liquidity ratios, there was too much of liquidity in the first two years of the study period a very high degree of liquidity is also bad as idle

assets earn nothing and affects profitability. It can be concluded that the liquidity management of TANCEM is poor and is not satisfactory.

- Sathyasundaram, I., (2001) in his article revealed that the cement industry had received an investment of Rs.30,000 crores out of which almost Rs.15,000 crores was in the form of debt from financial Institutions and banks and he estimated that the Industry had been experiencing an annual loss of Rs.1,000 crores. He further asserted that debts had been turned into non-performing assets and shareholding value has started eroding. He highlighted the cost cutting measures followed by the Industry, to improve their margins and supported the view that the Government should come forward to give relief in the tax burden of the Industry.

- Shenoy P.S (2001) has done a survey of India industry in his survey he inferred that the liquidity position during fiscal 2000 – 2001 of credit flow was picking up banks faced the non-availability of adequate development avenues. Profit performance the menance of non-performing assets comparative pressures thinking spreads and growth prospects in 2000 – 2002 of the banking sector had been clearly expressed improved customer service and a major restructuring of operation can meet competition from private sector banks.

- Santany Kumar Ghosh and Shanthi Gopal Maji (2003) Studied, "Utilisation of current asset and operating profitability and an empirical study on cement and tea industries in India". The study concluded that the degree of current asset in positive associated with the operating profitability of the firm.

- Ramachandra Reddy.B and Yuvarasa Reddy.B (2007) studied "financial performance through market value added(MAV) approach" the study has been made to examine the effect of selected variables as MAV, for the purpose of analysis, 10 cement company were selected in Andrapradesh.

- L.G Burange and Shruti Yamini (2008) studied on "performance of India cement industry: the competitive landscape", the cement industry is experiencing a booms 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 has also been evaluated for the year 2006 – 2007 out of the same of seventeen firms (90.21% of the total market share); about 47% have recorded above industry average performance in the overall competitiveness index.

III. STATEMENT OF THE PROBLEM

In the modern globalised economy, finance is considered as one of the prime factors in the economic activity. In the present economic scenario, Cement Industry plays a major role in the development of infrastructure of our nation. This study is made to gain knowledge about how Cement Industries are effectively managing funds in their business.

IV. OBJECTIVE OF THE STUDY

- To assess the Short – term solvency and Long – term Solvency position of the company.

V. METHODOLOGY

RESEARCH DESIGN

- This study is an analytical research. This analytical research, the researcher has to use facts or information already available and analyses these to make critical evaluation of the study.

SOURCE OF DATA

- Secondary Data like balance sheet, profit and loss account and annual reports are used in this study to know the Solvency position of the company.

SAMPLE

- By adopting purposive sampling method the data required for the study have been selected from 2003 to 2012.

VI. ANALYSIS AND INTERPRETATIONS

Solvency ratios is Classified into two types (i) Long–term Solvency ratio and (ii) Short-term Solvency ratio.

SHORT–TERM SOLVENCY RATIO

Solvency ratios measure the capability of the firm to meet up its current obligations. They point out whether the firm has adequate liquid resources to meet its short-term liabilities.

(i) CURRENT RATIO

This ratio is used to assess the firm's capacity to meet its current liabilities. The association of current assets to current liabilities is known as **current ratio**. The Current ratio of 2:1 is measured ideal. If the ratio is less than two, it may be tricky for a firm to pay current liabilities. If the ratio is more than two, it is an indicator of idle funds. The ratio is calculated as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 1 CURRENT RATIO

YEAR	KCP	MADRAS	INDIA
2003	1.73	0.55	1.47
2004	1.81	0.59	1.47
2005	1.77	0.56	1.61
2006	1.76	0.53	1.80
2007	1.74	0.67	2.20
2008	1.71	0.67	1.88
2009	1.85	0.65	1.42
2010	1.88	0.76	1.43
2011	1.28	0.60	0.93
2012	0.90	0.47	0.48
MEAN	1.64	0.61	1.47
S.D.	0.31	0.08	0.48
C.V.	18.90	13.11	32.65

Source: Capital Plus

The table reveals the current ratio for 10 years. The current ratio of KCP Cement company in 2003 (1.73) and in 2012 (0.90). The maximum current ratio in 2010 (1.88) and the minimum current ratio falls in 2012 (0.90).

The current ratio of Madras Cement company in 2003 (0.55) and in 2012 (0.47). The maximum current ratio in 2010 (0.76) and the minimum current ratio falls in 2012 (0.47).

The current ratio of India Cement company in 2003 (1.47) and in 2012 (0.48). The maximum current ratio in 2007 (2.20) and the minimum current ratio falls in 2012 (0.48).

The overall average of the three companies is 1.24. The average of KCP Cement Company (1.64) is better than other two companies. The Coefficient of Variance of Madras Cement Company (13.11) has better consistency.

The current ratio of KCP Cement Company (1.64) is found to be satisfactory.

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(ii) LIQUID RATIO

This ratio is used to evaluate the firm's short term liquidity. The association of liquid assets to current liabilities is known as **liquid ratio**. It is otherwise called as **Quick ratio** or **Acid Test ratio**. The liquid ratio of 1:1 is considered satisfactory. The ratio is calculated as:

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Table 2 LIQUID RATIO

YEAR	KCP	MADRAS	INDIA
2003	1.39	1.30	2.57
2004	1.48	1.30	4.73
2005	1.26	1.12	3.63
2006	1.27	0.99	3.36
2007	1.31	1.23	3.38
2008	1.45	1.34	1.83
2009	1.67	1.33	1.52
2010	1.59	1.32	2.09
2011	1.61	0.48	0.69
2012	1.27	0.61	0.72
MEAN	1.43	1.10	2.45
S.D.	0.16	0.31	1.33
C.V.	11.18	28.18	54.28

Source: Capital Plus

The table reveals the liquid ratio for 10 years. The liquid ratio of KCP Cement company in 2003 (1.39) and in 2012 (1.27). The minimum liquid ratio in 2005 (1.26) and the maximum liquid ratio rises in 2009 (1.67).

The liquid ratio of Madras Cement company in 2003 (1.30) and in 2012 (0.61). The maximum liquid ratio in 2009 (1.34) and the minimum liquid ratio falls in 2011 (0.48).

The liquid ratio of India Cement company in 2003 (2.57) and in 2012 (0.72). The maximum liquid ratio in 2004 (4.73) and the minimum liquid ratio falls in 2011 (0.69).

The overall average of the three companies is 1.66. The average of India Cement Company (2.45) is better than other two companies.

The Coefficient of Variance of KCP Cement Company (11.18) has better consistency.

The liquid ratio of all the companies is found to be satisfactory.

(iii) ABSOLUTE LIQUID RATIO

It is a modified form of liquid ratio. The relationship of absolute liquid assets to liquid liabilities is known as **absolute liquid ratio**. This ratio is also called as '**Super Quick Ratio**'. The ratio is calculated as:

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Liquid Liabilities}}$$

Table 3 ABSOLUTE LIQUID RATIO

YEAR	KCP	MADRAS	INDIA
2003	0.10	0.28	0.01
2004	0.14	0.35	0.02
2005	0.12	0.26	0.01
2006	0.25	0.22	0.11
2007	0.26	0.14	0.53

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2008	0.36	0.06	0.43
2009	0.53	0.09	0.07
2010	0.49	0.07	0.05
2011	0.71	0.04	0.04
2012	0.25	0.05	0.00
MEAN	0.32	0.16	0.13
S.D.	0.20	0.11	0.19
C.V.	62.3	68.75	146.15

Source: Capital Plus

The table reveals the absolute liquid ratio for 10 years. The absolute liquid ratio of KCP Cement company in 2003 (0.10) and in 2012 (0.25). The minimum absolute liquid ratio in 2003 (0.10) and the maximum absolute liquid ratio rises in 2011 (0.71).

The absolute liquid ratio of Madras Cement company in 2003 (0.28) and in 2012 (0.05). The maximum absolute liquid ratio in 2004 (0.35) and the minimum absolute liquid ratio falls in 2011 (0.04).

The absolute liquid ratio of India Cement company in 2003 (0.01) and in 2012 (0.00). The maximum absolute liquid ratio in 2007 (0.53) and the minimum absolute liquid ratio falls in 2012 (0.00).

The overall average of the three companies is 0.20. The average of KCP Cement Company (0.32) is better than other two companies.

The Coefficient of Variance of KCP Cement Company (62.3) has better consistency.

The absolute liquid ratio of all the companies is found to be not favourable.

LONG-TERM SOLVENCY RATIO

Solvency ratios assess the long-term financial condition of the firm. Bankers and creditors are most interested in liquidity. But shareholders, debenture holders and financial institutions are worried with the long-term financial prospects.

(i) PROPRIETORY RATIO

This ratio shows the relationship between proprietors or shareholders' funds and total tangible assets. Proprietory ratio indicates the proportion of shareholder's funds in total assets. A high proprietory ratio indicates less danger and risk to creditors in the event of winding up. The ratio is calculated as:

$$\text{Proprietory Ratio} = \frac{\text{Shareholders' funds (Proprietors funds)}}{\text{Total tangible assets}}$$

Table 4 PROPRIETORY RATIO

YEAR	KCP	MADRAS	INDIA
2003	0.61	0.28	0.19
2004	0.63	0.32	0.40
2005	0.68	0.33	0.39
2006	0.64	0.39	0.53
2007	0.67	0.50	0.52
2008	0.77	0.37	0.65
2009	0.78	0.34	0.65
2010	0.59	0.38	0.66
2011	0.47	0.43	0.60
2012	0.50	0.45	0.58
MEAN	0.63	0.38	0.52
S.D.	0.10	0.07	0.15
C.V.	15.8	18.4	28.8

Source: Capital Plus

The table reveals the proprietory ratio for 10 years. The proprietory ratio of KCP Cement company in 2003 (0.61) and in 2012 (0.50). The maximum proprietory ratio in 2009 (0.78) and the minimum proprietory ratio falls in 2011 (0.47).

The proprietory ratio of Madras Cement company in 2003 (0.28) and in 2012 (0.45). The minimum proprietory ratio in 2003 (0.28) and the maximum proprietory ratio rises in 2012 (0.45).

The proprietory ratio of India Cement company in 2003 (0.19) and in 2012 (0.58). The minimum proprietory ratio in 2003 (0.19) and the maximum proprietory ratio rises in 2010 (0.66).

The overall average of the three companies is 0.51. The average of KCP Cement Company (0.63) and India Cement Company (0.52) is better than Madras Cement Company.

The Coefficient of Variance of KCP Cement Company (15.8) has better consistency.

The proprietory ratio of madras Cement Company is found to be not satisfactory.

(ii) DEBT – EQUITY RATIO

This ratio helps to ascertain the soundness of the long term financial position of the concern. It indicates the proportion between total long term debt and shareholders' funds. This also indicates the extent to which the firm depends upon outsiders for its existence. The standard debt – equity ratio is 2:1. The ratio is calculated as:

$$\text{Debt-Equity Ratio} = \frac{\text{Total long term Debt}}{\text{Shareholders' funds}}$$

Table 5 DEBT – EQUITY RATIO

YEAR	KCP	MADRAS	INDIA
2003	0.62	2.23	2.70
2004	0.61	2.05	3.70
2005	0.53	1.59	4.20
2006	0.52	1.17	2.22
2007	0.52	0.87	1.35
2008	0.38	0.99	0.88
2009	0.28	1.44	0.61
2010	0.47	1.56	0.54
2011	0.62	1.20	0.43
2012	0.50	0.83	0.39
MEAN	0.51	1.39	1.70
S.D.	0.11	0.48	1.42
C.V.	21.5	34.5	83.5

Source: Capital Plus

The table reveals the debt-equity ratio for 10 years. The debt-equity of KCP Cement company in 2003 (0.62) and in 2012 (0.50). The maximum debt-equity ratio in 2003 (0.62) and 2011 (0.62) and the minimum debt-equity ratio falls in 2009 (0.28).

The debt-equity ratio of Madras Cement company in 2003 (2.23) and in 2012 (0.83). The maximum debt-equity ratio in 2003 (2.23) and the minimum debt-equity ratio falls in 2012 (0.83).

The debt-equity ratio of India Cement company in 2003 (2.70) and in 2012 (0.39). The maximum debt-equity ratio in 2004 (3.70) and the minimum debt-equity ratio falls in 2012 (0.39).

The overall average of the three companies is 1.20. The average of Madras Cement Company (1.39) and India Cement Company (1.70) is better than KCP Cement Company.

The Coefficient of Variance of KCP Cement Company (21.5) has better consistency.

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The debt – equity ratio of India Cement Company is found to be satisfactory and Madras Cement Company is found to be moderately Favourable.

VII. SUGGESTIONS

- The company has to improve the long term solvency position.

- Madras Cement Company has to improve the short term solvency position by increasing the current assets.

- The Madras Cement and India Cement companies have to give more importance in maintaining optimum liquidity position.

- The liquidity position of KCP Cement Company is found somewhat satisfactory.

- Current Ratio is almost flexible and in declining phase for almost all the Companies, so the Cement Companies should take necessary steps to reduce their Current Liabilities

VIII. CONCLUSION

The solvency position is very much essential in this present globalized economic environment. Appropriate analysis of solvency position helps the firms to increase their earning capacity and changes in the retained earning process by modifying various ratios. The overall performance of the selected cement companies are analysed through their solvency position. The overall act of all the selected companies shows the fluctuations in some of the study period. This is due to rapid decline found internationally, which also impacts the cement sectors.

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