



Funds Management in Select Cement Companies in YSR Kadapa District of Andhra Pradesh

KEYWORDS

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ABSTRACT Cement, a wonder material for binding stones and bricks, has also known as a builder of modern civilization. "Cement" was for the first time used for a mixture of broken stones and tiles with some binding's materials. In terms of importance, it is second only to steel among construction materials. It has been used as a basis of all Modern Construction. Cement industry has been incurring massive losses due to high cost of production, declining exports and decrease in local demand of the commodity but the government ignored all the issues of cement makers and no support was extended to the ailing industry, he highlighted. Hence, it is necessary to study the funds Management Practices in various cement companies. To analyze the financial statements, the present study focused on Zuari cement limited and the India cements limited in YSR kadapa District of Andhra Pradesh.

1. INTRODUCTION

The cement industry occupies an important place in building the industrial base of a country and for providing an infrastructure for the development of the economy. It also plays a vital role in the development of human civilization in innumerable ways like construction of massive dams and towering sky-scrapers to dainty gardens, walks, shimmering fountains etc. Thus it assumed as a crucial part in the economic growth and development a country. The Indian cement industry is one of the major industries in India. It is the oldest manufacturing industry in the modern sector of the Indian economy. It is one of the key, capital-intensive, energy and transport-intensive industries in India. It is both a basic and consumer-based industry. It is an indigenous industry in which the country is well endowed with all the necessary raw materials, skilled labour, machinery, equipments, technology and know-how.

In the global context, India is the second largest among the cement producing countries in the world after China. At national level cement is one of the major industries in the core sector. It is one of the core industries identified by the government for inclusion in planning at national level. The Indian cement industry occupies an important place in building the industrial base of a country and providing basic infrastructure facilities. It is the most important material which is used in construction of buildings, roads, houses, dams, bridges etc

2. NEED FOR THE PRESENT STUDY

Finance is the life blood of any industrial system. It lubricates, develops and accelerates growth. Without it no business organization of finance is a crucial function and its performance helps the organization to prosper. Financial Management is directly concerned with the overall management of an enterprise and it involves taking policy decisions related to the line of business, size of the firm, type of equipment used, extend of debt, liquidity etc., which in term determine the level of profitability. Thus, financial management assumes grate significance in any industry.

In India a Phethora of human and natural resources are available in plenty but the capital resources are highly restricted. A thorough understanding of financial management is necessary to utilize the limited, mobilized capital resources efficiently and effectively. It is difficult to evolve norms for sound and efficient management practice in various organization without any factual information. Hence, there are is a needed to study financial management practices in various industries in India. But the present study covers only the financial performance of selected cement companies in YSR Kadapa District of Andhra Pradesh.

3. STATEMENT OF THE PROBLEM

Cement industry faces some special problems such as fluctuations in the production do to in adequate availability of raw materials of power etc., Profitability of the cement industry is very low because of high cost of production. In fact, some units are incurring continuous losses. The industry has failed to retain more profits and, consequently, been forced to depend more on external sources. This in term is leading to in balanced capital structure. The direct result of this is the failure of the industry in the maintenance of liquidity. Due to rapid industrialization and economic development in India, demand for cement is increasingly rapidly. To meet this growing demand, technology up-gradation of existing plants, and installation of additional capacity are required. Conversion of wet process in to dry process and increasing the capacity utilization of the existing plants by bringing about operational improvements and efficiency are also needed. All these involve a huge outlay of financial resources. Therefore, financial management is necessary for the successful working of the cement units in the country. In this context an attempt has been made in this study to analyze the financial performance of selected cement companies in YSR Kadapa District of Andhra Pradesh for a period of 10 years from 2001-02 to 2010-2011.

4. OBJECTIVES

The specific objectives are;

- To analyze the funds management in selected cement companies in YSR Kadapa District of Andhra Pradesh; and;
- To examine the similarity between two companies regarding the funds from operations with the help of variance test.

5. METHODOLOGY

The present study is confined to only two-selected cement manufacturing companies in YSR Kadapa District of Andhra Pradesh. These two cement companies were purposively selected, one is Zuari cement and other one is India cements from Y S R Kadapa District., based on proximity and convenience. The period of study refers to ten years from 2002-03 to 2010-11. The present study mainly depends upon secondary data collected from the annual reports of zuari cement limited & the India cements limited. The data has been analyzed with the help of financial tools and statistical tools.

6. FUNDS MANAGEMENT IN SELECT CEMENT COMPANIES

The main purpose of preparing Funds Flow Statement is that it reveals clearly the important items relating to sources and applications of funds of fixed assets, long-term loans includ-

ing capital. It also informs how fare the assets derived from normal activities of business being utilized properly with adequate consideration. Secondly it also reveals how much out of the total funds is being collected by disposing of fixed assets, how much from long-term or short-term loans and how much from normal operational activities of the business. Thirdly, it also provides the information about the specific utilization of such funds, that is how much has been applied for acquiring fixed assets, how much for repayment of long-term or short-term loans as well as for payment of tax and dividend etc. Lastly, it helps the management to prepare budgets and formulate the policies that will be adopted for future operational activities.

7.1 FUNDS FLOW STATEMENT OF ZUARI CEMENT LIMITED FOR THE PERIOD 2001-02 TO 2002-03.

The funds flow statement of Zuari Cement Limited for the period 2001-2002 to 2002-2003 has been presented in Table 1.

Table-1 (Rs. lakhs)

S. No	Sources	Amount Rs.	%	S. No	Applications	Amount Rs.	%
1.	Issue of Shares	17000.00	69.40	1.	Purchase of Fixed Assets	339.00	1.38
2.	Increase in Unsecured Loans	765.63	3.12	2.	Payment of Secured Loans	11969.50	48.86
3.	Decrease in working capital	6730.87	27.48	3.	Purchase of Investments	8638.51	35.26
				4.	Loss from operations	3549.49	14.50
	Total	24496.50	100.00		Total	24496.50	100.00

Source: Compiled from the Annual Reports of Zuari Cement Limited.

It is evident from table 3.1 that in the case of Zuari Cement Limited, the total funds flow during the period from 2001-2002 to 2002-2003 amounted to Rs. 24,496.50 lakhs. In the total funds flow, 69.40 per cent was received through issue of shares, 27.48 per cent was received from decrease in working capital and 3.12 per cent was raised from increase in unsecured loans. Regarding the application of funds 48.86 per cent has been used for repayment of secured loans, 35.26 per cent of funds for purchase of investments, 14.50 per cent gone for Loss from operations and the remaining 1.38 per cent of funds utilized for purchase of fixed assets.

7. TECHNICS OF FUNDS FLOW STATEMENT

To bring the funds flow statement on a scientific line, the fund statement is divided into two parts.

- Schedule of changes in working capital, and
- Statement of Sources and Uses of Funds.

In this paper an attempt has been made to analyze the funds flow position of the selected cement companies in YSR Kadapa District of Andhra Pradesh. The Variance Ratio test has been used to test the homogeneity in the funds from operations between the two cement companies in YSR Kadapa District of Andhra Pradesh.

It is concluded that in the case of Zuari Cement Limited during the period from 2001-2002 to 2002-2003, more than 69.00 per cent funds received through issue of shares and remaining funds raised from decrease in working capital(27.48%) and through increase in unsecured loans. In application of funds major portion i.e., 48.86 per cent was used to repayment of secured loans and 35.26 per cent of funds used for purchase of investments and 14.50 per cent was gone loss from operations. Very meagre per cent of funds (1.38%) were used for purchase of fixed assets.

7.2 FUNDS FLOW STATEMENT OF ZUARI CEMENT LIMITED FOR THE PERIOD 2009-10 TO 2010-11.

The funds flow statement of Zuari Cement Limited for the period 2009-2010 to 2010-2011 is shown in Table 2.

Table-2 (Rs.Lakhs)

S.No	Sources	Amount Rs.	%	S.No	Applications	Amount Rs.	%
1.	Unsecured Loans	2283.61	2.29	1.	Secured Loans	689.02	0.69
2.	Sale of Investments	9913.83	9.96	2.	Purchase of Fixed Assets	98894.18	99.31
3.	Funds from operations	72013.89	72.31				
4.	Decrease in working capital	15,371.87	15.44				
	Total	99583.20	100.00		Total	99583.20	100.00

Source: Compiled from the Annual Reports of Zuari Cement Limited.

It is observed from the table 3.2 that the total funds of Zuari Cement Limited during the period from 2009-2010 to 2010-2011 amounted to Rs.99,583.20 lakhs. In the total funds flow 72.31 per cent comes from funds from operations, 15.44 per cent raised through decrease in working capital, 9.96 per cent was received from sale of investments and 2.29 per cent was received from unsecured loans respectively. Regarding the applications of funds 99.31 per cent has been used for purchase of fixed assets and only 0.69 per cent of funds used for repayment of secured loans.

It is inferred from table 3.1 and 3.2 that in the case of Zuari Cement Limited, only 5.31 per cent of funds used to purchase of fixed assets during 2001-2002 to 2002-2003 and it was drastically increased to 99.31 per cent of

funds 2009-2010 to 2010-2011, which was utilized for purchase of fixed assets. On the other hand major portion of funds(69.40%) was raised through issue of shares during 2001-2002 to 2002-2003 and major portion funds(72.31%) was raised from funds from operations during the period from 2009-2010 to 2010-2011. In case of net working capital it is observed that there was a decrease in contribution to total funds from 27.48 per cent to 15.44 per cent in the periods from 2001-2002 to 2002-2003 and 2009-2010 to 2010-2011.

7.3 Funds Flow Statement of The India Cements Limited for the Period from 2001-2002 to 2002-2003.

The funds flow statement of The India Cements Limited for the period 2001-2002 to 2002-2003 is presented in Table 3.

Table-3 (Rs. lakhs)

S.No	Sources	Amount Rs.	%	S.No	Applications	Amount Rs.	%
1.	Issue of shares	0.01	0.00	1.	Purchase of fixed Assets	1348.56	5.31
2.	Increase in secured loans	1624.68	6.39	2.	Purchase of Investments	12.52	0.05
3.	Decrease in working capital	23764.13	93.60	3.	Decrease unsecured loans	3091.49	12.18
				4.	Loss from operations	20936.25	82.46
	Total	25388.82	100.00		Total	25388.82	100.00

Source: Compiled from the Annual Reports of the India Cements Limited.

It is observed from the table 3.3 that the total funds of the India Cements Limited during the period from 2001-2002 to 2002-2003 amounted to Rs.25,388.82 lakhs. In the total flow 93.60 per cent raised through decrease in working capital and 6.39 per cent of funds received through increase in secured loans. Regarding the application of funds 82.46 per cent is Loss from operations, 12.18 per cent of funds used for repayment of unsecured loans, 5.31 per cent of funds for purchase of fixed assets and the remaining 0.05 per cent used for purchase of investments.

It is concluded that in the case of the India Cements Limited during the period from 2001-2002 to 2002-2003, more

than 93.00 per cent funds raised through decrease in working capital and the remaining funds raised through increase in secured loans. In the applications of funds 82.46 per cent is Loss from operations, 12.18 per cent of funds used for repayment of unsecured loans. Very meager portions of funds viz., 5.31 per cent and 1.05 per cent of funds used for purchase of fixed assets and purchase of investments respectively.

7.4 Funds Flow Statement of The India Cements Limited for the Period from 2009-2010 to 2010-2011.

The funds flow statement of The India Cements Limited for the period 2009-2010 to 2010-2011 is presented in Table 4.

Table-4 (Rs. lakhs)

S.No	Sources	Amount Rs.	%	S.No	Applications	Amount Rs.	%
1.	Sale of Investments	15366.36	20.71	1.	Purchase of Fixed Assets	22172.57	29.88
2.	Issue of shares	0.20	0.00	2.	Bank Loan Paid	536.42	0.72
3.	Increase in Secured Loans	31121.77	41.93	3.	Increase in working capital	51507.49	69.40
4.	Funds from operations	27728.15	37.36				
	Total	74216.48	100.00		Total	74216.48	100.00

Source: Compiled from the Annual Reports of the India Cements Limited.

It is evident from the table-3.4 that the total funds flow of the India Cements Limited during the period from 2009-2010 to 2010-2011 amounted to Rs. 74,216.48 lakhs. In the total funds flow Rs.41.93 per cent was received through increase in secured loans, 37.36 per cent was received from funds from operations and 20.71 per cent raised from sale of investments. Regarding the applications of funds 69.40 per cent was used for increase in working capital, 29.88 per cent has been used for purchase of fixed assets and only 0.72 per cent of funds for repayment of bank loans.

It is inferred from the tables 3.3 and 3.4 that in the case of the India Cements Limited, major portion of funds viz., 69.40 per cent raised through issue of shares during the period from 2001-2002 to 2002-2003 and 41.93 per cent raised through increase in secured loans during the period from 2009-2010

to 2010-2011 respectively. On the other hand 82.46 per cent of funds gone towards Loss from operations during the period from 2001-2002 to 2002-2003 and 69.40 per cent of funds used towards increase in working capital during the period from 2009-2010 to 2010-2011.

8. ANALYSIS OF VARIANCE TEST

In this study an analysis of variance or 'F' test is calculated to find out whether the both fund flow from operation are in the same manner in their variances. In this test, the consistency or fluctuations of funds flow from operation during the studying period for mutual comparison 'F' test is carried on. The formulated hypothesis is that there is heterogeneity in the funds from operations of these two cement companies. The details of funds from operations for two cement companies are presented in Table 5.

FUNDS FROM OPERATIONS Table-5 (Rupees in Crores)

Years	ZUARI CEMENT LIMITED	THE INDIA CEMENTS LIMITED
2001-02	-2,399.40	-8,705.26
2002-03	-3,549.99	-10,796.63
2003-04	14,866.60	-299.3
2004-05	868.27	15,263.62
2005-06	5,261.27	20,376.03
2006-07	23,871.21	29,680.39
2007-08	27,498.89	1,29,312.18
2008-09	24,330.34	58,552.09
2009-10	15,285.3	77,528.84
2010-11	12,582.59	25,979.8

Source: Compiled from Various Annual Report.

$$\text{Formula : } F_c = \frac{S_2^2}{S_1^2}$$

It should be noted that S22 is always the large estimate of variance i.e. ($S_2^2 > S_1^2$).

$$S12 \text{ (variance of } X_1) = \frac{\sum (X_1 - \bar{X}_1)^2}{N_1 - 1}$$

$$S22 \text{ (variance of } X_2) = \frac{\sum (X_2 - \bar{X}_2)^2}{N_2 - 1}$$

Where

$$\begin{aligned} \sum X_1 &= 118615.08 \\ \sum X_2 &= 336891.76 \\ X_1 &= 11861.508 \\ X_2 &= 33689.176 \end{aligned}$$

$$S1^2 = 130089723.2$$

$$S2^2 = 1911952998$$

$$F_c = \frac{1911952998}{130089723.2} = 14.697$$

For $V_1 = 9$ and $V_2 = 9$, $F_{0.05} = 3.30$ is less than $F_c = 14.697$

Since the calculate value is greater than the table value at 5 per cent level. Hence, the hypothesis is accepted that there is no similarity between the two companies regarding the funds from operations.

CONCLUSIONS

To improve the financial health of cement companies and to minimize the time gap between resources mobilization and utilization, the management must introduce the new cost saving techniques.

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