

A STUDY ON THE PERFORMANCE OF SELECTED INDIAN CEMENT COMPANIES

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ABSTRACT

Cement industry is one of the most prominent sectors of Indian economy reflecting the growth and strength of the country. It is the second most fundamental and essential industry, only after iron and steel industry, making contribution, directly or indirectly in generating employment opportunities. The study investigates the progress of Indian cement industry based on two major cement companies: ACC Cement and Shree Cement on the parameters of efficiency which are return on capital employed, capacity utilization, production and sales etc. the study relies purely on secondary data which have been obtained for the period starting from 2014-15 to 2018-19, through various sources viz. Cement Manufactures Association (CMA), Department for Promotion of Industry and Internal Trade, MoCI, GoI, Annual reports etc. It was concluded that the industry is on a progressive path in terms of all the variables taken for the study and suggested to improve the area of exports.

Keywords: Cement Industry, ACC Cement, Production, Efficiency, Performance, Shree Cement.

Introduction

The Indian cement industry is the second largest cement producer, only after China, report astounding growth over the last decade. The industry is directly related to country's infrastructure and construction sector thus its growth is predominant in adjudicating the development of the country. With a continuous demand driven by government's infrastructure projects and growing FDI inflow for manufacturing cement and gypsum products, the sector is developing and expanding with an impeccable rate. Major initiatives started by the Indian government such as Clean India Schemes, development of smart cities, housing for all scheme, national highway project etc. will provide a boost to the sector.

As per the data issued by Department for Promotion of Industry and Internal Trade (DPIIT), Foreign Direct Investment made in cement and gypsum products between April 2000 and March 2020 is worth US \$ 5.28 billion. Many large foreign players namely French-Swiss company LafargeHolcim, Germany based company Heidelberg Cement, Italcementi from Italy had entered the Indian Cement Market through merger or acquisition or green field projects or joint venture(Kumar, John, & Senith, 2013).A ready availability of raw materials like limestone and fuel for cement is a significant factor for the growth of cement sector. Major Indian companies have announced to expand or have already made expansions of their present capacity. With increasing technological advancement companies have incorporated new and improved modes of waste processing, transportation and digital modes for cashless payment. Installed capacity of Indian Cement Industry (ICI) in the FY2015 was 390 MTPA (million tonnes per annum) with large cement plants having capacity of 378.3 MTPA and mini cement plants having capacity of 11.7 MTPA (IBEF, 2015). This has increased to the capacity of nearly 545 MTPA with large cement plants having capacity of over 410 MTPA and mini cement plants having capacity of nearly 11.10 MTPA (IBEF, 2020).

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Investment Scenario by Companies

- **Shree Cement:** Shree Cements stands among the top 3 cement groups of India in terms of cement capacity. Capacity increment is registered, with a CAGR of 15.33%, from 9.1 MTPA in 2008-09 to 37.09 MTPA in 2018-19. Market capitalization stands for ₹65,033 crore in 2018-19.
 - To increase the production capacity from 23.6 MTPA to 33.6 MTPA, Shree Cement had announced to spend US\$ 0.9 billion in 2016 by establishing three new clinker plants.
 - To increase its existence in the eastern India, two greenfield projects had been undertaken by the company in Odisha and West Bengal which will attract the investment of US\$ 78 million.
 - Company has made an acquisition of Union Cement Company (UCC) Ras-AI-Khaimah, United Arab Emirates worth US\$ 305.24 million.
- **ACC Cement:** With installed cement capacity of 33.05 MTPA, ACC Limited is a leading player in the Indian cement sector. Market capitalization stands for ₹27147 crore in the FY 2019 with average capacity utilization of 84%.
 - For better growth and expansion ACC Cement join hands with Lafarge Holcim group.
 - ACC's Jamul unit in Chhattisgarh and grinding unit in Jharkhand was upgraded.
 - In 2018, the board approved project of total expenditure of ₹2843 which include greenfield and brown field projects in Uttar Pradesh, Madhya Pradesh and Jharkhand.

Review of Literature

(Rathna, Ravi, & Vikraman, 2017) investigated the operational efficiency level of Indian Cement Industry by applying the following statistical tools- Augmented Dickey-Fuller test, Co-integration test and Firm Efficiency Scores and find out that the operational efficiency level of the cement companies was at satisfactory level. (Amudha, 2016) studied the operational efficiency of south Indian cement companies namely Chettinad Cements, Andhra Cements KCP Cements and India Cements on factors such as productivity of raw material, labour, power-fuel and capital employed productivity. With respect to raw material, Indian Cements productivity was highest among all selected companies. Labour productivity was found highest in Chettinad Cements. With respect to power productivity, KCP Cements stood first among all the companies. Capital employed productivity was better in KCP Cements than all other cement companies. (Geetha & S.Ramasamy, 2014) analyzed the performance efficiency of Indian cement industry by adopting ratio analysis and compound aggregate growth rate (CAGR) and concluded that the performance was fine and gave suggestion to consolidate the cement companies to become more stronger and be attentive toward the exports. (Mekha & Reddy, 2018) studied the growth of Indian cement industry and concluded that the sector has not reached the level of self sufficiency and there is a need to increase exports. (Dhivya, Shobanapriya, Devika, Karthika, & Bakiyaraj, 2017) examined the financial performance of ACC Cement Ltd. and applied tools such as ratio analysis and trend analysis. The results indicated that the liquidity position and solvency of the company is in satisfactory position. (M Devi, 2017) in their research paper "Profitability analysis of select cement companies of India" found out that in comparison to other companies, profitability position of Ultratech Cement is in satisfactory condition.

Objective

To examine the growth and progress of cement industry with reference to the selected companies, in terms of their capacities, RoCE and value additions.

Research Methodology

For the purpose of effective analysis data has been collected for a period of 5 years from 2015 to 2019 from the database maintained and made available by various organizations namely Cement Manufacturers Association (CMA), Department for Promotion of Industry and Internal Trade (DPIIT), Annual reports of the companies, periodicals, journals and related websites. The study is based entirely on secondary data.

- **Analysis:** The data used for the study is based on following efficiency parameters: installed capacity (mtpa), capacity utilization, production in million tonnes (mtpa), net worth (in rupees), operating EBITDA (in rupees), profit after tax (in rupees), earning per share, return on capital employed (RoCE). The details of installed capacity, production and sales of ACC Cement and Shree cement are presented in the table below:

Year	ACC Cement			Shree Cement		
	Installed Capacity	Production	Sales	Installed Capacity	Production	Sales
	(m.t.)	(m.t.)	(m.t.)	(m.t.)	(m.t.)	(m.t.)
2014-15	23.84	23.84	23.62	23.6	15.99	16.16
2015-16*	23.18	23.18	22.99	25.6	14.10	14.24
2016-17	33.41	26.56	26.21	29.3	20.29	20.58
2017-18	33.41	28.36	28.37	34.9	22.20	22.53
2018-19	33.05	27.87	28.89	37.9	25.06	25.86

*Data of Shree Cements is for 9 months.

In the starting of the study period installed capacities of both companies were comparatively lesser and so did the production and sales. However, during the span of 5 years ACC Cement and Shree Cement have expanded their capacities to 33.05 MTPA and 37.9 MTPA respectively. By setting up new projects and improving already existing plants, the production reached to a level of 27.87 MTPA in case of ACC Cement and 25.06 MTPA in case of Shree Cement. Sales data of ACC Cement report a continuous growth over these 5 years, in case of Shree Cement there is a strong leap from 16.16 MTPA to 25.86 MTPA. This was possible due to the growing demand of cement driven by various government initiatives and growing competition among Indian and foreign players.

The following table present data related to profits, net worth, Average Return on Capital Employee, Earning per share of ACC Cement:

Year	Operating EBITDA (in ₹ crore)	Profit after tax (in ₹ crore)	Net worth (in ₹ crore)	RoCE (in %)	EPS (in ₹)
2014-15	1537	592	8443	11	31.51
2015-16	1474	647	8832	11	34.46
2016-17	1909	915	9365	14	48.75
2017-18	2045	1507	10528	15	53.57
2018-19	2409	1359	11521	18	72.36

Financial Progress of ACC Cement

Profits (after tax) of the company increased from ₹ 592 crore in 2015 to ₹ 1359 crore in 2019. Additional capacity expansion results in the increment of assets and liabilities, thus a positive value addition is shown in net worth. Net worth which was ₹ 8443 crore in 2015, increased to ₹ 11521 crore in 2019. Return on capital employed helps in understanding a company's capital efficiency and profitability. Average return on capital employed was 11% in 2015, which increased to 18% in 2019. Share holders' interest in the company can be seen in earning per share. Earnings per share is more than doubled from the starting of the study period to 2019.

The following table present data related to profits, net worth, Average Return on Capital Employee, Earning per share of Shree Cement:

Year	Operating EBITDA (in ₹ Crore)	Profit after tax (in ₹ Crore)	Net worth (in ₹ Crore)	RoCE (in %)	EPS (in ₹)
2014-15	1481.70	426.33	5276.40	7.64	122.38
2015-16 (9 months)	2079.59	1143.13	6845.53	20.47	328.13
2016-17	2874.94	1339.11	7698.14	17.85	384.39
2017-18	2861.83	1384.18	8896.83	16.83	397.33
2018-19	2898.22	951.05	9597.39	9.82	273

Financial Progress of Shree Cements

Earnings before interest, taxes, depreciation and amortization (EDITDA) reached ₹ 2898.22 crore in 2019 form ₹ 1481.70 crore. Net profits of the company increased to ₹1384.18 croretill 2017-18 but decreased in 2018-19 to ₹ 951.05 crore. There was an increment in the finance cost and depreciation and amortization expenses with an addition of exceptional expenses which subsequently reduced the operating EBITDA. Net worth of the company exceptionally increased to ₹ 9597.39 crore. Return on capital employed increased in the year 2015-16 but then start declining and registered at 9.82% in the year 2019. Earnings per share increased to ₹ 397.33 in 2017-18 but decreased in the subsequent year to ₹ 273.

Findings and Suggestions

The Indian cement industry is on a compelling path in terms of capacity, production, operational and financial parameters. Domestic companies are constantly upgrading their games to keep their place in the competitive market which required effective and detailed planning and implementation. ACC Cement has been expanding and upgrading its capacities by initiating new projects, which will result in rise in the cost. To improve the structure of cost ACC Cement has started an initiative named 'Parvat'. Besides all good aspects, there is still need to focus on the central and eastern parts of India to prevent being sold out. Also, profitability should be enhanced by bringing improvement in operating margins with cost optimization. Shree Cement has been growing exceedingly well but as mentioned by the company in the annual report net profit was declined due to book an investment in preference shares of IL&FS group which was downgraded by the rating agencies and other reason was a loss on taking the External Commercial Borrowings (ECB). The company should take measures for improving its capacity, fuel consumption level, Waste Heat Recovery Power Plant (WHRPP) of new and existing projects to rationalize costs, all this will eventually contribute in increasing profitability. For the future, ACC Cement and Shree cement has to pay attention to expand their export area.

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