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ijmrset@gmail.com



www.ijmrset.com



Working Capital Component Analysis of Cement Companies in India

Prayang Garg¹, Dr. Vishal Shrivastava², Dr. Akhil Pandey³

B.Tech Scholar, Department of Information Technology & Engineering, Arya College of Engineering & I.T.,
Jaipur, India ¹

Professor, Department of Information Technology & Engineering, Arya College of Engineering & I.T., Jaipur, India ^{2,3}

ABSTRACT: Working capital should be efficiently used in order to achieve long term growth and profitability. It is one of the major tools for management and creditors to evaluate the current position of the business. Management uses working capital analysis to assess liquid assets in a more meaningful way i.e., the proper management of cash flows and inventories while the vendors and creditors are using working capital calculations to assess the company's ability to pay their debt in time or not.

The formula for working capital is

Working capital = Current Assets – Current Liabilities There are 4 Main Components of Working Capital

- Trade Receivables
- Inventory
- Cash and Bank Balances
- Trade Payables

I. OBJECTIVES OF THE STUDY

- To analyse various factors that are affecting working capital requirements in cement industry.
- To study and appraise components of working capital of selected cement companies.
- To compare the working capital position of selected cement companies in India.
- To analyse the ratios with the help of financial statements.

II. NEED OF THE STUDY

The way current assets as well as current liabilities are organized; it determines the extent of accomplishment or collapse of a business firm. Management of working capital involves the administration of components of current assets and current liabilities. Therefore, the firm needs to optimize use of existing resources by efficient management of components of current assets and current liabilities. It enables business to increase in profitability and it would be capable to pay its obligation promptly.

III. DATA COLLECTION

Data was collected through secondary sources only. For data collection, annual reports from the companies' respective websites was used. No third party website should be referred as the data needs to be very reliable.

For data analysis, ratio analysis was used to compare the performance of different companies. Ratio analysis is referred to as the study or analysis of the line items present in the financial statements of the company. It can be used to check various factors of a business such as profitability, liquidity, solvency and efficiency of the company or the business.

The following ratios were used to compare the performance of different companies:

- Current ratio
- Inventory turnover ratio
- Working capital turnover ratio



- Debtors Turnover Ratio
- Creditors Turnover Ratio
- Average payment period

Standalone Statement of Profit and Loss

for the Year ended March 31, 2022

₹ In Crores			
Particulars	Note No.	Year ended March 31, 2022	Year ended March 31, 2021
Revenue from Operations	23	50,663.49	43,188.34
Other Income	24	611.80	788.68
TOTAL INCOME (I)		51,275.29	43,977.02
EXPENSES			
Cost of Materials Consumed	25	6,459.77	5,174.94
Purchases of Stock-in-Trade	26	2,458.19	1,936.70
Changes in Inventories of Finished Goods, Stock-in-Trade and Work-in-Progress	27	(358.37)	426.44
Employee Benefits Expense	28	2,359.08	2,181.99
Finance Costs	29	798.37	1,259.08
Depreciation and Amortisation Expense	30	2,456.76	2,434.35
Power and Fuel		10,951.95	7,552.02
Freight and Forwarding Expense	31	11,567.64	9,939.56
Other Expenses	32	6,288.81	5,011.87
TOTAL EXPENSES (II)		42,982.20	35,916.95
Profit before Exceptional Items and Tax Expense (I)-(II)		8,293.09	8,060.07
Exceptional Items			
Rates and Taxes	54	-	(164.00)
Profit before Tax Expense		8,293.09	7,896.07
Tax Expense:			
Current Tax		1,518.68	1,415.05
Excess Tax Provision related to prior years	18	(305.15)	-
Deferred Tax Charge	18	13.02	1,138.95
Total Tax Expense		1,226.55	2,554.00
Profit for the Year (III)		7,066.54	5,342.07
Other Comprehensive Income			
A (i) Items that will not be reclassified to Profit or Loss - Remeasurement (Loss)/ Gain on defined benefit plan		(17.80)	82.61
(ii) Income Tax Relating to Items that will not be reclassified to Profit or Loss		6.22	(28.87)
B (i) Items that will be reclassified to Profit or Loss - Cash Flow Hedge		(8.92)	13.15
(ii) Income Tax Relating to Items that will be reclassified to Profit or Loss		2.24	(3.31)
Other Comprehensive Income for the year (IV)		(18.26)	63.58
Total Comprehensive Income for the year (III+IV)		7,048.28	5,405.65
Earnings Per Equity Share (Face Value ₹ 10 each)	40		
Basic (in ₹)		245.00	185.20
Diluted (in ₹)		244.90	185.13
Significant Accounting Policies	1		

The accompanying notes form an integral part of the Standalone Financial Statements.

In terms of our report attached.

For **B S R & Co. LLP**
Chartered Accountants
Firm Registration No: 101248W/W-100022

VIKAS R KASAT
Partner
Membership No: 105317
Mumbai: April 29, 2022

For **Khimji Kunverji & Co LLP**
Chartered Accountants
Firm Registration No: 105146W/W-100621

KETAN VIKAMSEY
Partner
Membership No: 044000

For and on behalf of the Board of Directors

ATUL DAGA
Whole-time Director and CFO
DIN: 06416619

K. C. JHANWAR
Managing Director
DIN: 01743559

S. K. CHATTERJEE
Company Secretary



IV. DATA INTERPRETATION AND ANALYSIS

RATIO ANALYSIS

This technique provides analysis of each and every component of working capital. Every aspect of working capital can be captured in this method. Ratio of one component to another component is computed and results are extracted with comparison against standards. This technique also helps to understand whether the working capital components are adequate or short or excessive as per the requirement. The following ratios are used for the analysis:

1. Current Ratio = Current Assets / Current Liabilities
- Inventory Turnover Ratio = Sales / Average Inventory
2. Working Capital Turnover Ratio = Sales / Working Capital
3. Debtors Turnover Ratio = Net Credit Sales / Average Accounts Receivable
4. Creditors Turnover Ratio = Net Credit Purchases / Average Accounts Payable
5. Average Payment Period = 365 / creditors turnover ratio
6. Average Collection Period = 365 / debtors turnover ratio

These ratios are used in financial analysis to assess the liquidity, efficiency, and management of a company's assets, liabilities, and working capital.

Ratios	Ultratech cement		Ambuja cement		ACC ltd	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Current ratio	0.99:1	1.17:1	1.26:1	0.98:1	1.7:1	1.73:1
Inventory turnover ratio	9.81	11.60	9.54	15.23	12.68	15.30

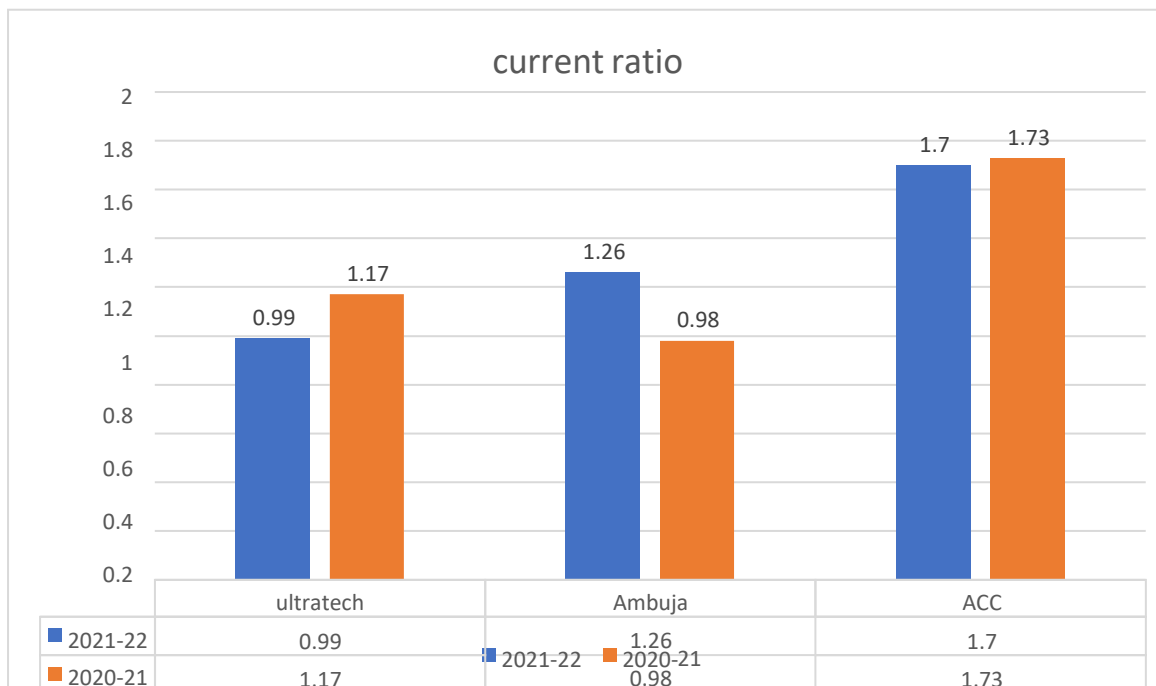
Working capital turnover ratio	(267.9)	12.71	9.85	(100.88)	3.79	3.89
Debtor turnover ratio	18.71	18.89	47.63	59.37	33.01	30.52
Creditors turnover ratio	1.66	1.68	1.32	1.21	1.60	1.67



Average payment period	219.8	217.2	276.5	301.6	228.1	218.5
Average collection period (indays)	19.5	19.32	7.6	6.14	11.05	11.95

CURRENT RATIO

	ULTRATECH CEMENTLTD		AMBUJA CEMENTS LTD		ACC LTD	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Current assets	18983.48	22982.92	6774.67	4430.81	10246.45	8330.50
Current liabilities	19172.59	19587.10	5357.75	4543.53	5992.17	4790.74
Current ratio	0.99:1	1.17:1	1.26:1	0.98:1	1.7:1	1.73:1



V. INTERPRETATION

Inventory turnover ratio measures how fast a company is selling inventory. It is used to measure how efficiently a business is managing its inventories. In general, a high inventory turnover denotes efficient operations. A low inventory turnover compared to the industry average and competitors means poor inventories management. However, a very high value of this ratio may result in stock-out costs. All cement companies are holding adequate inventory to avoid any stock-out situation.



WORKING CAPITAL TURNOVER RATIO

FOR THE YEAR ENDED 2021-22 AND 2020-21

	ULTRATECHCEMENT LTD		AMBUJA CEMENTS LTD		ACC LTD	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Net sales	50663.49	43188.34	13964.95	11371.86	16151.35	13784.54
Working capital	(189.11)	3395.82	1416.92	(112.72)	4254.28	3539.76
Working capital turnover ratio	(267.9)	12.71	9.85	(100.88)	3.79	3.89

working capital turnover ratio

	Ultratech	Ambuja	ACC
2021-22	-267.9	9.85	3.79
2020-21	12.71	-100.8	3.89

VI. CONCLUSION

The study carried out indicates many findings, and thus some recommendations can be framed about the selected cement companies underanalysis of working capital. The biggest limitation of the study is that many cement companies are opted to be out because either they are small cement companies or it is not the core business of the company. Moreover, no report or journal other than annual reports of companies were made available by any selected cement companies. Hence study is carried out with the information available in annual reports, some aspects are not pointed out in the absence of relevant data.

VII. RECOMMENDATIONS AND SUGGESTIONS

Seeing current ratio of Ambuja cement, it is recommended that the company should maintain optimal level of current assets against current liabilities to achieve ideal level. ACC needs to follow the same practices so as to maintain the ideal current



ratio.

A few suggestion and related areas where further investigation may be done areas follows:

1. The research may also be based on small as well as mid capcompanies
2. The duration of study and sample size may also be increased
3. The study also could be pursued with the international point of view
4. The data may also be taken through primary source.



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