

“WORKING CAPITAL” STRATEGIC PLANNING WITH THE PERSPECTIVE OF INDIAN CEMENT INDUSTRY

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ABSTRACT

Success of any organization depends on its effective and efficient financial management, it is also proved that organizations are able to plan their long term capital requirement, but organizations are often faces problem in identifying its actual need of working capital management, which actually creates major problems for the organizational growth, it is also believed that when companies estimations with reference to this goes wrong, relationship with customers and traders also gets disturbed, which ultimately spoils the reputation of the organization in the industry where they work, this paper discusses in detail concepts of working capital, its requirements in the companies and units in addition it also discusses in detail about factors affecting to it with reference to different organization, this paper is an attempt to study the cement industry of India, factors which are making great senses in estimating requirement of working capital and how strategy can be planned which allows the organization to lower its expenditure and increase gain in greater way

Key words: working capital, Net working Capital, Working capital cycle

INTRODUCTION:

“Working Capital is the Life-Blood and Controlling Nerve Center of a business”

The working capital management precisely refers to management of current assets. A firm’s working capital consists of its investment in current assets, which include short-term assets such as: Cash and bank balance, Inventories, Receivables (including debtors and bills), Marketable securities. Working capital is commonly defined as the difference between current assets and current liabilities. $WORKING\ CAPITAL = CURRENT\ ASSETS - CURRENT\ LIABILITIES$ There are two major concepts of working capital: Gross working capital Net working capital, where gross refers to total and net refers to current assets minus current liabilities.

This paper also discusses in detail about the requirement of working capital with aspect of cement industry in detail, it also talks about other factors which really makes great sense in estimating working capital need or organization. The current assets of a typical manufacturing firm account for half of its total assets. For a distribution company, they account for even more. Working capital requires continuous day to day supervision. Working capital has the effect on company’s risk, return and share prices, There is an inevitable relationship between sales growth and the level of current assets. The target sales level can be achieved only if supported by adequate working capital Inefficient

working capital management may lead to insolvency of the firm if it is not in a position to meet its liabilities and commitments.

DETERMINANTS OF WORKING CAPITAL

Each industry, with passage of time have different requirement with the change in the environmental factors and cement industry is not exception to this, following are most common factors which any organization should not ignore in estimating the need of working capital requirement

Nature of business - The amount of working capital is basically related to the nature and the volume of the business. Firms engaged in public utility services require moderate amount of working capital whereas firms producing luxury goods require large amount of working capital.

Size of business - Size is also a determining factor in estimating working capital requirements. The size may be measured either in terms of scale of operations or in terms of assets or sales.

Changes in technology - Changes in technology may lead to improvement in processing of raw material, saving in wastage, higher productivity and more speedy production. All these improvements enable the firm to reduce the working capital requirements.

Length of operating cycle - The amount of working capital depends upon the length or duration of operating cycle. The speed with which the operating cycle is completed, determines the amount of working capital. The larger is the period, the more is the investment in inventories and wage bills.

Terms of purchase and sale - A firm buying raw materials and other services on credit and selling on cash basis will require less investment in current assets as compared to a firm which purchases on cash basis and sells on credit.

The period of credit and the efficiency in collection of debts also influence the amount of working capital required. The terms and conditions of purchase and sale are generally governed by the prevailing trade practices and by changing economic condition.

Inventory - Some concerns are force to hold large inventories in terms of raw materials or finished goods due to the reason of seasonal nature of availability, long distances, scarcity etc, in such case the working capital requires is more.

Business cycles - Business cycle refers to the alternate expansion and contraction in general business activities. In a period of boom when the business is prosperous, there is need for larger amount of working capital due to increase in sales and rise in prices of raw materials. The contrary happens in the period of depression.

Profit margin - A high rate of profit margin due to quality products or good marketing management or monopoly power in the market, reduces the working capital requirements of the firm, as profit earned in cash is a source of working capital. On the

contrary, firms earning low margin of profits due to competition or mismanagement need larger amount of working capital.

Credit policy - A firm following liberal credit policy and thus granting credit facilities to all customers without evaluating the credit worthiness will require more working capital to carry book debts. On the contrary, a firm that adopts strict credit policy and grants facilities to customers with high credit standing will require less amount of working capital as funds tied-up in receivables will be released promptly for further uses.

Rate of Stock Turnover: There is an inverse co-relationship between the question of working capital and the velocity or speed with which the sales are affected. A firm having a high rate of stock turnover will needs lower amt. of working capital as compared to a firm having a low rate of turnover.

Production Policy: If the policy is to keep production steady by accumulating inventories it will require higher working capital.

Length of Production Cycle: The longer the manufacturing time the raw material and other supplies have to be carried for a longer in the process with progressive increment of labor and service costs before the final product is obtained. So working capital is directly proportional to the length of the manufacturing process.

Seasonal Variations: Generally, during the busy season, a firm requires larger working capital than in slack season

Dividend policy of concern - If the management follows a conservative dividend policy the needs of working capital can be met with the retained earnings. The relationship between dividend policy and working capital is well established and mostly companies declare dividend after a careful study of their cash requirements

OTHER FACTORS- Operating efficiency. In addition to the above mentioned factors few others which are to be taken in considerations are Management ability. Irregularities of supply. Import policy. Asset structure. Importance of labor. Banking facilities, etc.

INDIA CEMENT INDUSTRY OVERVIEW

The history of the cement industry in India dates back to the 1889 when a Kolkata-based company started manufacturing cement from Argillaceous. But the industry started getting the organized shape in the early 1900s. In 1914, India Cement Company Ltd was established in Porbandar with a capacity of 10,000 tons and production of 1000 installed. The World War I gave the first initial thrust to the cement industry in India and the industry started growing at a fast rate in terms of production, manufacturing units, and installed capacity. This stage was referred to as the Nascent Stage of Indian Cement Company. In 1927, Concrete Association of India was set up to create public awareness on the utility of cement as well as to propagate cement consumption.

The cement industry in India saw the price and distribution control system in the year 1956, established to ensure fair price model for consumers as well as manufacturers. Later in 1977, government authorized new manufacturing units (as well as existing units going for capacity enhancement) to put a higher price tag for their products. A couple of

years later, government introduced a three-tier pricing system with different pricing on cement produced in high, medium and low cost plants.

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, from both Indian and foreign investors, making it the second largest in the world. The industry is currently in a turnaround phase, trying to achieve global standards in production, safety, and energy-efficiency.

India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent major government initiatives such as development of 100 smart cities are expected to provide a major boost to the sector. Expecting such developments in the country and aided by suitable government foreign policies, several foreign players such as Lafarge, Holcim and Vicat have 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. India is the 2nd largest cement producer as well as consumer in the world led by the enormous growth in the infrastructure and construction sector for the last two decades.

PERIOD OF RESTRICTION (1969-1982)

The cement industry in India was severely restrained by the government during this period. Government hold over the industry was through both direct and indirect means. In 1977 the government authorized higher prices for cement manufactured by new units or through capacity increase in existing units. But still the growth rate was below par. In 1979 the government introduced a three tier price system. Prices were different for cement produced in low, medium and high cost plants. Rise in input cost, reduced profit margins meant the manufacturers could not allocate funds for increase in capacity.

PARTIAL CONTROL (1982-1989)

The Government of India introduced a quota system in 1982. A quota of 66.60% was imposed for sales to Government and small real estate developers. For new units and sick units a lower quota at 50% was affected. The remaining 33.40% was allowed to be sold in the open market. These changes had a desired effect on the industry. Profitability of the manufacturers increased substantially, but the rising input cost was a cause for concern.

POST LIBERALIZATION CEMENT INDUSTRY STRATEGIC MOVE:

In 1989 the cement industry was given complete freedom, to gear it up to meet the challenges of free market competition due to the impending policy of liberalization. In 1991 the industry was de licensed. Cement is one of the core industries which plays a vital role in the growth and expansion of a nation. It is basically a mixture of compounds, consisting mainly of silicates and aluminates of calcium, formed out of calcium oxide, silica, aluminum oxide and iron oxide. The demand for cement depends primarily on the pace of activities in the business, financial, real estate and infrastructure sectors of the economy. Indian cement industry is globally competitive because the industry has witnessed healthy trends such as cost control and continuous technology up gradation.

CURRENT MARKET SCENARIO OF THE INDUSTRY WITH WORKING CAPITAL

With nearly 390 million tonnes (MT) of cement production capacity, India is the second largest cement producer in the world and accounts for 6.7 per cent of world's cement output. The cement production capacity is estimated to touch 550 MT by FY 20. Of the total capacity, 98 per cent lies with the private sector and the rest with the public sector. The top 20 companies account for around 70 per cent of the total production. A total of 188 large cement plants together account for 97 per cent of the total installed capacity in the country, while 365 small plants make up the rest. Of the total 188 large cement plants in India, 77 are located in the states of Andhra Pradesh, Rajasthan and Tamil Nadu. India's cement production increased at a compound annual growth rate (CAGR) of 6.7 per cent to 270.32 million tonnes over FY07-15. As per the 12th Five Year Plan, production is expected to reach 407 million tonnes by FY17.

The Government of India is strongly focused on infrastructure development to boost economic growth and is aiming for 100 smart cities. It plans to increase investment in infrastructure to US\$ 1 trillion in the 12th Five Year Plan (2012-17). The government also intends to expand the capacity of the railways and the facilities for handling and storage to ease the transportation of cement and reduce transportation costs. These measures would lead to increased construction activity thereby boosting cement demand.

SIGNIFICANT CHALLENGES

Cement industry growth during the next decade looks very promising. Cement demand is projected to grow to 2.5 to 2.7 times the current volumes and reach 550 to 600 mtpa by 2025. Per capita cement consumption is likely to increase from 185 kg currently to 385 to 415 kg in 2025. This growth will likely be led by investments in the infrastructure sector, with subsectors such as roads, power, and irrigation leading the charge. By driving increased cement usage in these infrastructure projects (roads, power, and irrigation), the industry can achieve the full potential of cement demand growth. Residential demand will be driven by increasing urbanization, a rise in the number of nuclear-family households, and upgrades from non-pucca to more permanent pucca houses, many of which are built with concrete. The residential sector will remain one of the largest consumers with 42 to 45 per cent of total demand in 2025, but also will likely see increased consolidation among real estate players. These changes will lead to a significant shift in the overall cement customer mix. The share of large and direct buyers (contractors and developers) is expected to increase from 30 per cent currently to 70 per cent by 2025.

KEY IMPLICATIONS IN THE SECTOR

This shift will have three key implications for the cement sector: Changes in product preference: The share of OPC could increase in the future since large institutional buyers and RMC players prefer buying OPC and does in-house blending because of favorable cost economics. Shift in mode of delivery, higher demand for RMC, and bulk: Demand for RMC could reach 25 per cent of total cement demand by 2025. This would also affect demand for bulk cement; it is expected to reach 20 per cent of total demand by 2025.

Higher sophistication in selling and delivering: Timely onsite delivery, technical competence, relationship management, and transparency in credit and commercial terms would become more important. Resource requirements will also rise. An additional capacity of 330 to 380 mtpa for cement and 240 to 270 mtpa for clinker could be required by 2025, translating to an investment of close to Rs 300,000 crore. An unattractive tax and infrastructure environment would make it difficult to bring in this investment. In addition, continuous improvement would strengthen the industry's operating cost structure by reevaluating asset footprints, increasing automation, improving power and thermal efficiency, and striving toward leaner organizational structures. Energy security will become a key concern for the industry. Proactive use of waste heat recovery (WHR), alternative fuels and raw materials (AFRs), and renewables will become important alternatives to domestic coal. The split between imported coal and pet coke (both domestic and imported) will be governed by prevailing market prices and availability.

ROLE OF THE SECTRO IN BUILDING MODERN INDIA

Infrastructure and housing will be essential building blocks for modern India, and high-quality cement and concrete at cost-effective prices will be prerequisites for both sectors, requiring the industry to build adequate supply capacity to meet the demand. To ensure viable added capacity, continuous efforts to improve cost efficiencies will be crucial. In addition, advancements in product offerings (value-added products), the distribution model (bulk delivery), and structural design and specifications can help promote best-in-class construction practices. The industry can be a role model for other processes and manufacturing industries by developing best practices while using state-of-the-art technology for cement production and application. Secure long-term energy requirements in a cost-effective, sustainable manner, and emerge as a world leader in sustainability. Long-term growth in cement production will result in a corresponding increase in thermal and electrical energy requirements for the sector. The supply of coal, the preferred source for thermal and electrical energy, is already bottlenecked. In addition, the impact of efficiency improvements is slowly plateauing. The industry can overcome these factors by working creatively to further improve energy efficiency while increasing adoption of alternative energy sources. Investments in strong local R&D capabilities can help keep up with—if not remain ahead of global advancements in technology while using the industry's increasing scale to push efficiency to the next level. In addition, excise duties on cement are among the highest compared to other sectors. Other core sectors such as coal and steel are levied at duties of around 5 per cent, compared to cement which attracts duties of anywhere between 10 and 13 per cent.

CHALLENGES IN THE SECTOR WITH REFERENCE TO BURDEN OF RISING COST

Cement prices have not increased as much as production and capital costs in the past four to five years, which has taken a toll on industry profitability. The rate of technological improvements in the industry has been slowing down, with a large share of the industry already employing the best available technology in terms of material and energy efficiency. Unless the government acts to reduce the burden of escalating costs, the benefits of incremental technology improvements will be limited and technological disruption will be required for the industry to achieve high profitability. While the

widening gaps in operating costs and sales realization have been reducing the average Ebitda per ton for the industry, capital costs have been steadily rising (from an average of INR 4,200 per ton in 2009 to INR 7,200 in 2013). As a result, the internal rate of return on a new Greenfield cement plant in India has seen a steady decline from 17 per cent in 2008 to 9 per cent in 2013. At current levels of capital cost for a Greenfield plant setup, the minimum Ebitda per ton needed for a threshold return of 15 per cent would be close to INR 1,650 per ton.

GOVERNMENT INITIATIVES

In order to help the private sector companies thrive in the industry, the government has been approving their investment schemes. Some such initiatives by the government in the recent past are as follows: The State Government of Chattisgarh has auctioned one block of Limestone (Kesla II) in Raipur District having estimated reserves of 215 million tonnes valued at Rs 10,367 crore (US\$ 1.61 billion), and would earn a cumulative revenue of Rs 11,894 crore (US\$ 1.85 billion) to State Government over the lease period. In Budget 2018-19, Government of India announced setting up of an Affordable Housing Fund of Rs 25,000 crore (US\$ 3.86 billion) under the National Housing Bank (NHB) which will be utilised for easing credit to homebuyers. The move is expected to boost the demand of cement from the housing segment.

FUTURE OF CEMENT INDUSTRY IN INDIA:

The eastern states of India are likely to be the newer and virgin markets for cement companies and could contribute to their bottom line in future. In the next 10 years, India could become the main exporter of clinker and gray cement to the Middle East, Africa, and other developing nations of the world. Cement plants near the ports, for instance the plants in Gujarat and Visakhapatnam, will have an added advantage for exports and will logistically be well armed to face stiff competition from cement plants in the interior of the country. Due to the increasing demand in various sectors such as housing, commercial construction and industrial construction, cement industry is expected to reach 550-600 Million Tonnes Per Annum (MTPA) by the year 2025. A large number of foreign players are also expected to enter the cement sector, owing to the profit margins and steady demand. In future, domestic cement companies could go for global listings either through the FCCB route or the GDR route. With help from the government in terms of friendlier laws, lower taxation, and increased infrastructure spending, the sector will grow and take India's economy forward along with it. Exchange Rate Used: INR 1 = US\$ 0.015 as of March 01, 2018.

CONCLUSION:

Cement industry is undergoing great change, with the globalization and investment opportunities in India, foreign companies are constantly increasing its business considering prospects in Asia to be more specifically in India, which has allowed the cement industry to prosper with grate pace, which has opened up financing business for these industry, if organization gets success in managing its working capital effectively it will allow not only the industry to grow but it will allow the country to prosper as well, this paper is providing detail study of cement industry in india with a strategic decision

making with respect to requirement of working capital of industry as a whole and units as a specific

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