



A FINANCIAL PERFORMANCE ANALYSIS OF SELECTED INDIAN CEMENT COMPANY

Pravin T. Patel*

Dr. Manoj D Shah**

**Assistant Professor, Aroma College of Commerce, Usmanpura, Ahmedabad.*

***Director, School of Commerce & Management, Babasaheb Ambedkar Open University Ahmedabad.*

Abstract

The present study evaluated the problems and prospects of selected cement companies in India. For the purpose of investigation purely secondary data is collected from annual report of cement industries and profile of the industries. The study covers a period of 5 years from 2010-11 to 2014-2015. This study has analyzed only the financial problems of the company. Study accompanied on problems and prospects of cement companies provided an assessment of problems in profitability analysis and prospects of the cement companies based on their balance sheet and profit and loss a/c. The tools are use for analysis accounting ratio and Statistical tools like Mean, S.D. (Standard Deviation) and F ANOVA. Based on the findings, suggestions are given by the researcher for better improvement of the management of cement industry in future. This study also finds out the extents where the industries can expand the position precision of its funds, capital structure and financial positions of cement companies.

Keywords: Cement, Financial Analysis, Secondary Data, Profitability Analysis.

1. Introduction

In olden days, various types of building materials were used for construction of public historical and religious buildings sand, stone and in the special case; marbles were used for this purpose. Gradually cement and new types of material had developed in Europe. In 1824 an English man Joseph Aspadin, patented on artificial made by calcinations of an argillaceous limestone known as Portland cement. The word "cement" traces to the Romans, who used the term Opus caementum to pronounce masonry like present concrete that was made from crumpled rock with scorched lime. In 1914, India Cement Company Ltd. was established in Porbandar using a capability of 10,000 tons installed capacity for production. The early insertion to the cement industry in India was during the 1st world war and then the industry started mounting at a speed in dealings of production, industrial units, and installed capability. The cement marketplace in India is estimated to develop at a compound annual growth rate of 8.96% throughout the year 2014 to 2019. In India, 67% of the overall consumption of cement for the housing sector is the major demand for cement.

2. Review of Literature

RAMA SHAKAR SINGH published a book in 1992. This edited book covers various issues pattern, development, regional imbalances, sickness, environmental impact, policy and regulation, and case study article of "cement industry." This article covers topic, development of the industry before independence after independence, state wise distribution of production, pattern of consumption, pricing of cement, distribution, India's role in global cement exports.

DR. S. J. PARMAR published a book in 2001. The book is a systematic study of the modern financial measurement techniques useful for management in planning and controlling corporate activities. This book covers topics of concept and measurement of profitability, cost & sales trend, profit margin, assets turnover, analysis of return on investment common size of value added statements.

DR. SANJAY J. BHAYANI has done his Ph.D. Thesis on "Analysis of financial statements of cement industry in India." In this study profile of the cement industries in India, conceptual framework of financial statements, analysis of activity, profitability, working capital, financial structure and summary, findings and suggestions.

Objectives

- To study the profitability of selected cement companies.

Hypothesis of the Study

The researcher starts the study with the following broader hypothesis.

- Null hypothesis
- Alternative hypothesis

H0: There is no significant difference in profitability of selected cement companies.

H1: There is a significant difference in profitability of selected cement companies.



Universe and Sample Selection for the Study

The universe of the study was consist of all the limited companies working in India and listed in stock exchange of India.

There are so many cement companies which are listed in stock exchange of India. Out of these Cement Companies, This study uses data collected from 5 years of following cement industries based on sales turnover above 1000 Core.

Researcher was randomly selected 5 Cement Companies for the period of 2010- 11 to 2014-15.

1. Ambuja cement company
2. Binani cement company
3. Ultratac cement company
4. J.K. Lakhmi cement company
5. Sanghi cement company

Limitations of the Study

This study is established on only secondary data and this study is limited to 5 years from 2010-11 to 2014-15 for the analysis and conclusions. A few of the companies had to be compulsorily excluded from analysis because of non-availability of data either due to non-submission of statements or due to their closure/merger/suspension of operation during the study period. There are many financial performance measurements using ratio analysis.

Profitability Analysis

$$(1) \text{ Gross Profit Ratio:-} \quad \frac{\text{Gross Profit}}{\text{Sales}}$$

The gross profit margin reflects the efficiency with which management produces each unit of product. This ratio also indicates the aggregate spread between the Cost of Goods Sold (COGS) and the sales revenue. A high gross profit margin ratio can be sign of good management.

Table 1.1: Gross profit Ratio of selected Cement Companies

Name of company	Ambuja cement	Binani cement	Ultratac cement	J.K. Lakshmi cement	Sanghi cement
2010-11	18.25	32.15	19.14	12.36	2.23
2011-12	17.90	30.31	17.71	11.53	5.27
2012-13	19.60	29.60	18.48	13.61	4.57
2013-14	12.67	16.06	13.63	8.10	5.69
2014-15	14.22	26.22	13.34	10.29	5.48
Average	16.53	26.87	16.46	11.18	4.65
S.D	2.63	5.73	2.47	1.88	0.83
C.V	15.89	26.34	15.02	16.83	17.85

Table (1.1) indicates the value of gross profit ratio of Ambuja cement, binani cement, Ultratac cement J.k.lakshmi cement and sanghi cement which indicate Goss profit ratio of five years 2010-11 to 2014-15. Ambuja cement Company was earning highest 19.60% gross profit in 2012-13. All five years gross profit ratio was in mix trends. Gross profit ratio of Binani cement was in mix trend, There were a big different in gross profit ratio in 2012-13 and 2013-14. In 2012-13 G.P Ratio was only 29.60% and in 2013-14, it was decrease to 16.06%. Gross profit ratio of Ultratac cement was in decreasing trend. Its position was good. Only G.P. Ratio of 2014-15 was very low. It was 13.34%. Gross profit ratio of J.k.Lakshmi cement was in mix trend but it was in decrease trend last two years. Gross profit of Sanghi cement was in mix trend.



Graph 1.1 Gross Profit ratio of selected Cement Companies.



H0: There is no significant difference in Gross profit ratio of selected cement companies.

H1: There is a significant difference in Gross profit ratio of selected cement companies.

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1334.972	4	333.743	26.15295	1.07E-07	2.866081
Within Groups	255.2239	20	12.7612			
Total	1590.196	24				

F_{cal} is 26.15 and F_{tab} is 2.87

Thus, $F_{cal} > F_{tab}$ calculation value is greater than table value

So, null hypothesis is rejected and it is concluded that the different is seen in Gross profit ratio of five selected cement companies.

(2) **Net Profit Ratio:** The ratio is valuable for the purpose of ascertaining the over-all profitability of business and shows the efficiency of operating the business. It is the reverse of the operating Expense ratio. It is calculated as follows:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Table 2.1: Net Profit Ratio of select cement companies

Name of company	Ambuja cement	Binani cement	Ultratac cement	J.K. Lakshmi cement	Sanghi cement
2010-11	15.29	15.23	10.63	3.97	-5.17
2011-12	12.82	5.26	13.47	6.35	7.71
2012-13	13.38	2.39	13.26	8.68	3.95
2013-14	14.27	5.26	10.63	4.46	4.73
2014-15	15.10	5.76	8.89	4.33	3.28
Average	14.17	6.78	11.38	5.56	2.9
S.D	0.96	4.40	1.74	1.77	4.31
C.V	6.8	65	15	32	149

Table (2.1) indicates the value of net profit ratio of five years 2010-11 to 2014-15. Ambuja cement Company was earning highest 15.29% net profit in 2010-11. Net profit ratio of Binani cement was in mix trend, There were a big different in net profit ratio in 2010-11 and other years. N.P Ratio was 15.23% in 2010-11 it was decrease to around 5% than after other years. It was lowest net profit in 2012-13. Net profit ratio of Ultratac cement was in mix trend. Its position was good. Only N.P.



Ratio of year 2014-15 was low. It was 8.89% and highest N.P. Ratio was 13.47% in year 2011-12. Net profit ratio of J.k.Lakshmi cement was in mix trend but it was in decrease trend last two years. Net profit of Sanghi cement was in mix trend. Its highest N.P.Ratio was 7.71% in 2011-12.

Graph 2.1 Net Profit Ratio of selected cement companies

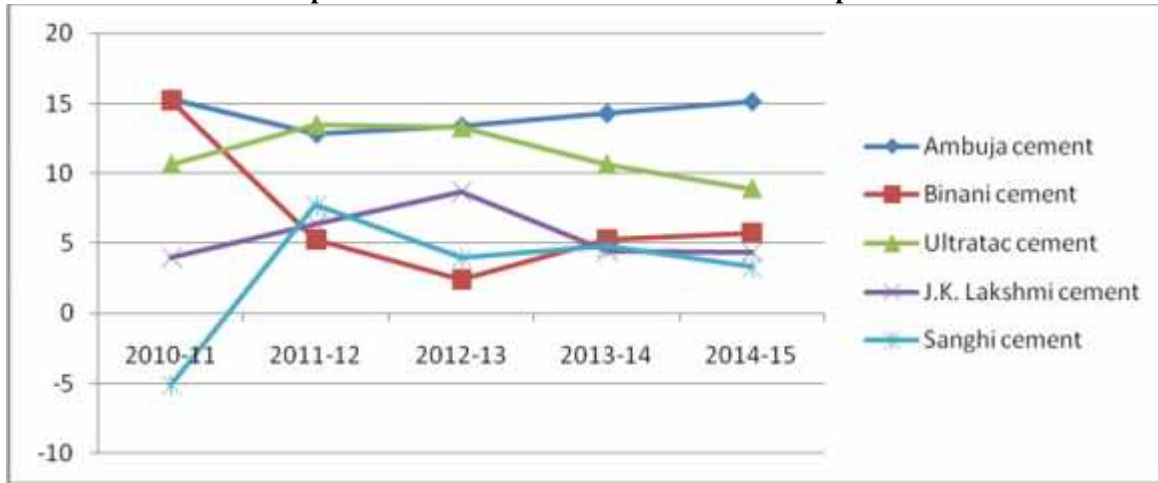


Table 2.1: ANOVA

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	414.1458	4	103.5365	9.219406	0.000216	2.866081
Within Groups	224.6055	20	11.23027			
Total	638.7513	24				

H0: There is no significant difference in Net profit ratio of selected cement companies.

H1: There is a significant difference in Net profit ratio of selected cement companies.

F_{cal} is 9.22 and F_{tab} is 2.87

Thus, $F_{cal} > F_{tab}$ calculation value is greater than table value.

So, null hypothesis is rejected and it is concluded that the different is seen in Net profit ratio of five selected cement companies.

Return on Capital Employed

H0: There is no significant difference in Return on capital employed of selected cement companies.

H1: There is a significant difference in Return on capital employed of selected cement companies.

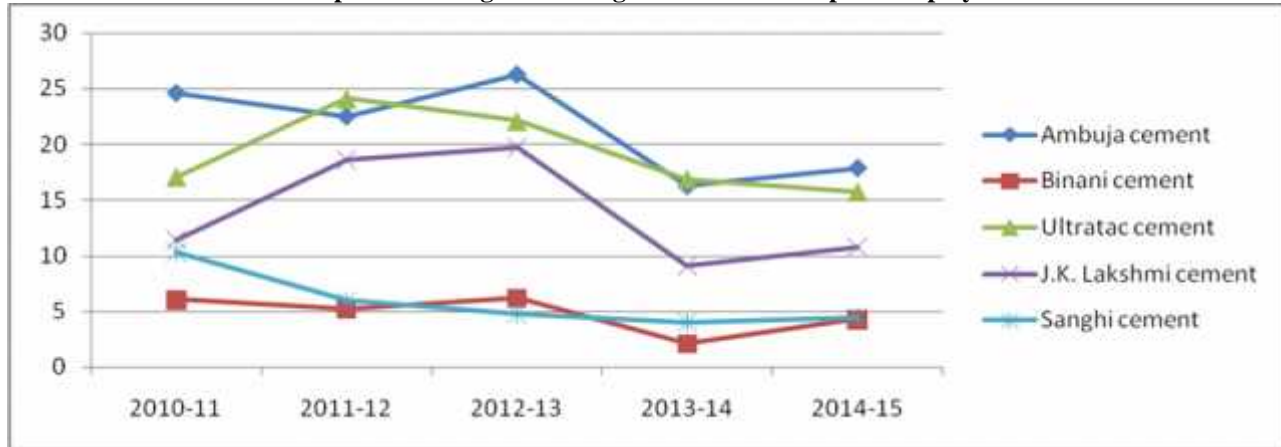
Table 3.1: Return on Capital Employed

Name of company	Ambuja cement	Binani cement	Ultratac cement	J.K. Lakshmi cement	Sanghi cement
2010-11	24.62	6.05	17.06	11.45	10.36
2011-12	22.52	5.19	24.10	14.58	5.97
2012-13	26.27	6.20	22.09	15.70	4.81
2013-14	16.31	2.11	16.86	9.09	4.00
2014-15	17.91	4.28	15.71	9.79	4.50
Average	21.53	4.77	19.16	13.92	5.93
S.D	3.83	1.50	3.30	4.34	2.31
C.V	17.79	31.34	17.25	31.20	38.93



Table 3.1 indicates the value of Return on capital employed ratio of Ambuja Cement Company was earning highest 26.27% Return on capital employed in 2012-13. Return on capital employed of Binani cement was in mix trend, Return on capital employed ratio of Ultratac cement was in decreasing trend last four years from 2011-12 to 2014-15. Its position was not so good. Only Return on capital employed Ratio of year 2011-12 was high. It was 24.10% Return on capital employed ratio of J.k.Lakshmi cement was in mix trend but it was in decrease trend last two years. Its highest Return on capital employed Ratio was 19.70% in the year 2011-12 and lowest rate of return was 9.07% in 2012-13.

Graph 3.1 Average Percentage of Return on Capital Employed



ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1144.12	4	286.03	28.6471	5E-08	2.866081
Within Groups	199.6921	20	9.984606			
Total	1343.812	24				

F_{cal} is 28.65 and F_{tab} is 2.87

Thus, $F_{cal} > F_{tab}$ calculation value is greater than table value.

So, null hypothesis is rejected and it is concluded that the different is seen in Return on capital employed of five selected cement companies.

Results and Discussion

Table 1.1 shows the Gross profit ratio of Ambuja cement, Binani cement Ultra Tech, J.K Lakshmi and sanghi cement companies and the mean values are 16.53, 26.87, 16.46, 11.18 and 4.65 respectively and the SD are 0.29, 0.21, 1.17, 1.07 and 0.78 respectively. From the findings, The C.V. is 15.89, 26.34, 15.02, 16.83 and 17.85 respectively. F-ANOVA of all this companies F_{cal} Value is 26.15 and F_{tab} value is 2.87. Here F_{cal} value is more than F_{tab} value so Hypothesis is Rejected. Table 2.1 shows the Net Profit ratio of Ambuja cement, Binani cement Ultra Tech, J.K Lakshmi and sanghi cement companies and the mean values are 14.17, 6.78, 11.38, 5.56 and 2.9 respectively and the C.V are 6.8, 65, 15, 32 and 149 percentages respectively. From the findings, Ambuja Cement Company has highest Net profit making company. Sanghi Cement Company has very high C.V 149%. F-ANOVA of Net Profit Ratio of all five companies F_{cal} value is 9.22 and F_{tab} value is 2.87 and P value is 0.000216. Table 3.1 shows the Return on capital employed the mean values are 27.34, 25.12, 31.56, 23.68 and 31.19 respectively, the SD of the companies are 10.35, 6.44, 8.26, 5.65 and 7.75 respectively. The C.V. are 0.38, 0.26, 0.26, 0.24 and 0.25 From the findings, J.K Lakshmi cement F-ANOVA of all this companies F_{cal} Value is 28.65 and F_{tab} value is 2.87. Here F_{cal} value is more than F_{tab} value so Hypothesis is Rejected.

Table 4.1: F-Anova Result of Cement Companies

Name of Ratio	P Value	F_{cal} Value	F_{tab} Value	Hypothesis Selected/Rejected
Gross Profit	1.07	26.15	2.87	Rejected
Net Profit	0.000216	9.22	2.87	Rejected
Return on Capital Employed	5	28.65	2.87	Rejected



Conclusion

Study accompanied on problems and prospects of cement companies provide an opinion of assessment of problems in liquidity and profitability analysis and prospects of the cement companies based on their balance sheet and profit and loss a/c. The tools used and analysis and interpretation have given method for useful and productive suggestions. The ratio analysis of the company is suitable. The company should enrich its performance for meeting challenges and exploiting chances in future and helps the management to take financial decisions. The movement and growth of the Ultra Tech, Binani, Ambuja, J.K.Lakshmi and Sanghi Cement companies are favorable in future period. This study has theoretical and practical significance and will help the academicians and researchers to develop new ideas for future study. The study focuses on the problems and prospects of cement industry, which may interest not only those who are interested in manufacturing cement or related products but also others to see the process of change within the industry. This study will be useful to the management to take investment decisions and anticipate future conditions, identification of its areas of strength and weakness and to take appropriate decisions for the maximization of its intrinsic value. The study may also be useful to creditors and the financial institutions in their effective credit policy formulation. The study will act as a guide to investors in their investment decisions.

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