

A Study of Profitability Analysis with Reference to Selected Cement Companies in India

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Abstract – The objective of this study is to investigate the impact on firm's profitability through the selected cement companies in India. Primary motive of any business is to make profit. Profitability is nothing but ability of an investment to earn return from its use. The study is based on secondary data i.e. eight years financial statements collected from Moneycontrol and Annual reports. Based on operating profit, Net profit Ratio and Net worth.

Cement industry is a largest industry in world economy and Indian cement industries is second largest in the world. It plays an important role in providing employment, infrastructure and housing sector, it attracted FDI worth US\$ 5.28 billion during the year April 2000 to December 2018. The production capacity is projected to reach 550-600 million tonnes per annum (MTPA) by 2025. The housing sector is the biggest demand driver of cement, accounting for about 67 per cent of the total consumption in India. The research paper mainly focuses on analyses of profitability of selected cement companies in India during period of 2011 to 2018, Profitability shows the Business and Financial efficiency of a business concern as well it also attracts Investors. It is an important instrument to measure not only the business performance but also overall efficiency in its concerned. In present study various tools used for analysis are mean, standard deviation, co-efficient of variation and compound annual growth rate. The study reveals that the profitability position of JK cements is satisfactory when compare to other companies like ACC Cement, Ambuja Cement, India Cement and Ultratech Cement.

Key Words: Mean, SD, CV and CAGR

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INTRODUCTION

Profitability of the firm is very important for investors to take their economic decisions. Profit earning is considered essential for survival of the business. Measuring the firm's financial performance using well financial ratios help stakeholders including investors, creditors, bankers, analysts and financial managers for taking their economic decisions. The ratio analysis uses well established financial ratios to obtain meaningful results on the performance of the firm rather than using complete set of financial statements to evaluate financial performance of the firm. The various ratios help stakeholders to analyze the financial performance and profitability of a firm and thus help in taking decisions to invest in the particular firm.

Cement industry in India plays an important role in its economy, providing employment to millions of people. The Indian cement industry has attracted huge investments, from both Indian and foreign investors, making it the second largest in the world.

The cement market in India is expected to grow at a compound annual growth rate (CAGR) of 8.96 percent during the period 2014-2019. The housing sector is the biggest demand driver of cement in India followed by freight corridors (rail routes for freight) ports and other infrastructural projects. To meet the rise in demand, cement companies are expected to add 56 million tonnes (MT) capacity over the next three years. The country's per capita consumption stands at around 190 kg. According to data released by the Department of Industrial Policy and Promotion (DIPP), cement and gypsum products attracted foreign direct investment (FDI) worth US\$ 5.28 billion between April 2000 and December 2018. Due to the increasing demand the production capacity is projected to reach 550-600 million tonnes per annum (MTPA) by 2025. The Government of India is focusing on infrastructure development to improve the economic growth of India. 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 lead to increased construction activities and thereby increasing cement demand.

OBJECTIVES OF THE STUDY:

To measure the profitability position of selected cement companies in India

REVIEW OF LITERATURE:

- **Dr. k. Bhagyalakshmi, Dr. P. Krishnama Chary (2016)** in their study on "Profitability Analysis in select cement companies" studied on selected six cement companies like, UltraTech, India, J.K, ACC, Ambuja & Madras cements Ltd. The study period was from 2003-04 to 3012-13 (10 years) in terms of p/v ratio, operating profit ratio, NER ratio, Dividend payout Ratio & earnings retention ratios etc. The main objective of their study was to analysis profitability efficiency of selected firms using Du Pont approach . In their paper the highest average p/v ratio, OPR, NER & ROI are observed in Ambuja cement Ltd compared to other selected companies.
- **Mohan et al. (2015)**, in his article "Profitability Analysis of Selected Cement Companies in India". The research paper mainly focuses on the analysis of profitability of the selected cement companies in India from 2005 to 2014. The tools used for analysis are mean, standard deviation, coefficient of variation and compound annual growth rate. The study found that the profitability position of Ambuja cement is satisfactory when compared to other companies.
- **Dr. Shishir Pandey and Vikas Kumar Jaiswall (2014)** in their paper "Comparative Study of Profitability Analysis of Indian Aluminium Industries between public and private sector" "the main objective of this research paper is to analysis the profitability position of the selected Aluminium companies for 5 year (2008-2014).the study based on the secondary data the tools used for the analysis is different profitability ratio and regression analysis, the study found that Aluminium industries in India shows Satisfactory performance in concern with profitability.
- **Shishir and Vikas (2014)** in their paper "A Comparative Study of Profitability Analysis of Indian Aluminium Industry between public and private sector". The primary objective of this research paper is to analyse the profitability position of the selected Aluminium companies for five years (2008-2014). The study based on the secondary

data. The tools used for the analysis are profitability ratios and regression analysis. From the study, the Aluminium industry in India revealed satisfactory performance in concern with profitability.

- **Dr. Pratibha Jain & Prof. Megha Mehta (2013)** In their study on financial performance of automobile companies finds that Hero Honda company performed well because of its usage of latest technology and Tata motors weak performance due to increased manufacturing overheads and company's inability to face competition.
- **Dr. Nabi Rasool et al. (2013)** in their study identified that Net profit; EPS & Return on total assets are the responsible factors which will have significant influence on ROE of the companies Even that some authors Abdul Raheman and Mohamed Nasr (2007) are of the opinion that the working capital management is significantly affects the profitability of the business concerns. In some cases even the in efficiency of the management (Dr. Monica Tulsian (2014) can held responsible for the lower profitability of the company.
- **Ross, Westerfield, Jaffe and Jordan (2008)** stated that return on equity, return on sales and return on assets were the widest used financial ratios. These ratios were used to measure how efficiently the firm uses its assets and how efficiently the firm manages its operations.

METHODOLOGY:

The study is based on secondary data, which are taken from annual reports of the selected cement companies, moneycontrol and Indiamirror. In this study, five cement companies in India are taken to analyse profitability which are listed in the stock exchange for a period from 2011 to 2018. The studies used for the descriptive analysis are Mean, Standard Deviation, co-efficient of variance and compound annual growth rate. These figures help to calculate the growth and effectiveness of investment of the selected cement companies.

DATA ANALYSIS:

Table No.3

Table No. 01

Analysis of Operating Profit Ratio from the year 20011 to 2018

YEAR	ACC	ULTRA TECH CEMENT	AMBUJA CEMENT	INDIA CEMENT	JK CEMENT
2011	19.88	20.02	23.11	12.38	13.26
2012	19.33	22.64	25.41	21.49	20.28
2013	14.58	23.16	18.02	17.90	19.23
2014	12.84	18.82	19.32	11.37	13.40
2015	13.03	18.29	16.18	15.42	13.59
2016	12.69	19.51	18.40	18.21	14.57
2017	14.37	20.79	18.55	17.90	18.46
2018	13.81	13.82	16.65	12.97	16.58
MEAN	15.0662	19.6312	19.455	15.58	16.1687
SD	2.8884	2.9091	3.1942	3.4328	2.8538
CV	0.1917	0.1481	0.1641	0.2203	0.1765
CAGR	-4.45%	-4.53%	-4.02%	0.58%	2.82%

Source: money control.com

The above table No. 01 reveals operating profit ratio of selected cement companies, the Mean operating profit ratio of Ultratech cements is having highest ratio of 19.6312 and lowest mean of 15.0662 by ACC cements, the Compound Annual Growth Rate of Operating Profit ratio was only positive in the case of JK cement and India Cement and remaining companies was negative during 20011 to 2018.

Table No. 02

Analysis of Net Profit Ratio of from the year 2011 to 2015

YEAR	ACC	ULTRA TECH CEMENT	AMBUJA CEMENT	INDIA CEMENT	JK CEMENT
2011	13.71	10.54	14.36	1.94	3.05
2012	9.34	13.35	13.33	6.96	6.96
2013	9.81	13.15	14.13	3.55	8.02
2014	9.95	10.57	14.99	-3.65	3.47
2015	5.01	8.78	8.53	0.66	4.68
2016	5.39	9.99	10.13	3.26	2.85
2017	6.89	10.99	11.94	3.00	5.61
2018	10.17	7.49	13.09	1.88	7.44
MEAN	8.7837	10.6075	12.5625	2.2	5.26
SD	2.884	1.9848	2.236	3.0001	2.0568
CV	0.3283	0.1871	0.1779	1.3636	0.3910
CAGR	-3.66%	-4.18%	-1.15%	-0.39%	11.79%

Source: money control.com

The above table No. 02 shows the Mean net profit ratio of selected cement companies are fluctuating trend during the study period Ambuja cements has the highest Mean of 12.5625 and India cements has the lowest Mean of 2.2 the compound annual growth rate of Net profit ratio was positive in the case of JK Cement and the rest of the companies it is Negative during the study period.

Analysis of Return on Net worth Ratio from 2011 to 2015

YEAR	ACC	ULTRA TECH CEMENT	AMBUJA CEMENT	INDIA CEMENT	JK CEMENT
2011	18.42	13.16	15.22	1.92	5.58
2012	14.37	19.02	14.73	8.18	13.75
2013	14.00	17.43	13.64	4.47	15.88
2014	14.18	12.54	14.81	-4.64	6.28
2015	7.00	10.68	7.83	0.89	9.53
2016	6.95	10.95	4.81	4.06	5.92
2017	9.77	10.97	6.25	3.39	11.55
2018	14.31	8.60	7.07	1.93	15.92
MEAN	12.375	12.9187	10.545	2.525	10.541
SD	4.058	3.568	4.43	3.443	4.3848
CV	0.3279	0.2761	0.4209	1.4481	0.4159
CAGR	-3.11%	-5.18%	-9.14%	0.06%	14.00%

Source: money control.com

The above table No 3 reveals the return on net worth of selected cement companies in India, the Mean return on net worth is fluctuating trend during the study period. Ultra Tech cements has the highest mean of 12.918 and India cements has the lowest mean of 2.525. The compound annual growth rate of return on net worth is positive in case of JK cements and India cement and rest of the companies show negative during year 2011-2018

CONCLUSION:

Profit earning is considered essential for the survival of the business. The profitability of different cement companies during the study period is found that Ambuja cements, the profitability position show satisfactory when compare to other companies. CAGR essentially smoothes out the progress of investment over a period of time, providing a clearer picture of annual return, fluctuating a great deal from year to year. In this research study the compound annual growth rate as shown satisfactory in JK cements while compare to other companies hence all the cement companies should concentrate on modern techniques of production and different marketing strategies to increase the positive growth rate and profitability of the business.

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