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PROFITABILITY ANALYSIS OF SELECT CEMENT COMPANIES IN INDIA

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ABSTRACT

Every enterprise, whether big, medium or small needs finance to carry on its operations and to achieve its objectives. A going concern needs finance for its further growth and expansion. These finance may be raised in the form of share capital, borrowings or ploughing back of profits. Procurement of capital is an important function of management, but the dexterity of management lies in the management of earnings. The primary objectives of business is to earn profits. The profitability measures the relationship between profit and sale. Profitability Ratio has become the powerful tool to gain exact details about the overall efficiency of the management. It helps in decision making of many business entities like Creditors, Share Holders, Prospective Investors, Bankers, Financial Institutions and Government etc. as all requires the analysis of profitability of an enterprise for the sake of their own interests. Thus, the present paper focuses on the analysis of profitability of the three select cement companies viz., CCI , Ultra tech, and ACC ltd. During 5 years period from 2013 to 2017 in terms of OPPR,NPR, ROE etc., by using the statistical techniques like percentage, ratios, Averages, Standard Deviation (SD), Coefficient of variation (CV) and Du Pont Approach to analyses the ROI of select cement companies.

KEYWORDS:
OPR,NPR,ROE, cement, profitability etc.,

INTRODUCTION

In India the cement industry is fast growing industry at the moment. Driven by a booming real estate sector, global demand and increased activity in infrastructure development such as state and national highways, the cement industry has witnessed tremendous growth. Production capacity has gone up and top cement companies of the world are in the Indian market, thereby sparking off a spate of mergers and acquisitions. The Indian cement industry is currently ranked second in the world.

Profit earning is considered essential for the survival of the business. In the words of lord Keynes, "profit is the engine that drives the business enterprise". A business needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investment, workers want higher wages, creditors want higher security for their interest and loan and so on. A business enterprise can discharge its obligations to the various segments of the society only through earning of profits. Profits are, thus, a useful measure of overall efficiency of a business. Profits to the management are the test of efficiency and a measurement of control; to owners, a measure of worth of their investment; to the creditors, the margin of safety; to employees, a source of fringe benefits; to government, a measure of tax- paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to an enterprise, less cumbersome source of finance for growth and existence and finally to the country, profits are an index of economic progress profitability ratios are calculated to measure the overall efficiency of the business.

The cement industry is one of the most energy-intensive sectors within the Indian economy. Clinker production is the most energy intensive step, accounting for nearly 75 percent of the energy used in cement production. In India, an estimated 90-95 per cent of the thermal energy requirement in cement manufacturing is met by coal. The remaining is met by fuel oil and high-speed diesel oil. Generally, the cement industry in India on an average requires 90-105 units of power in the wet process, and 100-110 units of power in the dry process to produce one tons of cement. The energy costs and cement freight costs are the two most important elements in the cost structure of a cement company. Hence the research paper present to know overall efficiency of cement companies in India. Through profitability analysis with the help of profitability ratio such as operating ratio, net profit ratio , return on equity ratio and to examine the return on investment

(ROI) of select cement companies by using the Due Pont approach.

REVIEW OF LITERATURE

Mohd. Ajmal (2015) "Evaluation of financial performance of cement corporation of India (CCI) limited" the financial performance will have been evaluated through the financial ratio. Liquidity position of the company will be checked through sort term solvency ratios while earning performance have been evaluated with the help of profitability ratios. Other financial and statistical tools and techniques have also been applied in order to check the overall financial position of the company.

Dr. k. Bhagyalakshmi, Dr. P. Krishnama Chary (2016) in their study on "Profitability Analysis in select cement companies" took six selected cement companies viz., Ultra Tech, The India, J.K, ACC, Ambuja & Madras cements Ltd. During 10 years from 2003-04 to 3012-13 in trems of p/v ratio, operating profit ratio, NER ratio, Dividend payout Ratio & earnings retention ratios etc. to analysis profitability efficiency of selected firms Du Pont approach also used. In there paper concludes that, the highest average p/v ratio, OPR, NER & ROI are observed in Ambuja cement Ltd. Among selected companies.

Mrs.N.sumathi , Dr. K. Jothi (2016) " A study on Financial Performance of cement companies in India with reference to Ultra Tech cement Limited and OCL India Limited - A Comparative Analysis. In there study the author , select two companies. For the result comparative analysis both the companies must improve their short term solvency position.

R. Sasikala & K.P Balakrishnan (2016) " Growth and Profitability of selected cement industries in India." The secondary data of cement industries was collected for 10 years based on sales turnover of above 1000 crores. Statistical analysis namely gross profits, net profit, return on investment, return on equity, payout ratio and correlation analysis the growth and profitability of cement industries. It was clear that the select 12 cement industries recorded a good gross profit ratio during the study period except JK cements and Prism cements. The highest average rate of return on capital cements.

Dr.Hemant Bhanawat (2017) "Financial Performance of Indian Cement Industry : Study of Select Units" in their study they found that the efficiency of a firm depend upon the working operations of the concern. Profit earning is considered essential for survival of the business. Both long term and short term solvency ratios prove the solvency position and efficiency of the slect companies. The financial positions of the select cement companies are satisfactory.

PROFITABILITY RATIO

Profitability Ratio has become the powerful tool to gain exact details about the overall efficiency of the management. It helps in decision making of many business entities like Creditors, Share Holders, Prospective Investors, Bankers, Financial Institutions and Government etc. as all requires the analysis of profitability of an enterprise for the sake of their own interests. Thus, following profitability ratios can be computed to satisfy the various needs of all inclusive business entities. Important Profitability Ratio are; (1) Gross Profit Ratio. (2) Operating Ratio. (3) Operating Profit Ratio. (4) Net Profit Ratio. (5) Return on Investment. (6) Earnings Per Share (7) Dividend Per Share.

RETURN ON INVESTMENT (DU PONT APPROACH)

Return on investment is one of the most successfully yet simple technique ever conceived to aid both decision – making and performance evaluation. it is considered to be an operationally useful tool. To derive the attention of management to desirable and undesirable concerned trends it develops a series of chart utilizing the ratio inter-relationship. Using such a system the changes in the performance can be easily judged, as soon as a company succeeds in developing reasonable standards of performance regarding the various ratios. This technique was first developed by Du Pont Company for analyzing and controlling financial performance. it brings together the activity ratios and profit margin on sale and show how these ratio interact to determine profitability of assets.

According to "Du Pont Approach" return on investment can be computed with the help of the following formula:

Return on Investment (ROI) = Sales/Total assets * Earning After Tax/Sales

The first term of the equation express the total assets turnover. This measures efficiency of asset management. The second term of the Du Pont analysis exhibits the returns on sale ratio. It measures efficiency of expense control sine the difference between sale and earnings after tax presents the expenses and taxes of the company, the smaller these expenses, the higher will be the ratio of earning after taxes to sale. In other words, larger return on sales would mean the management success in controlling expenses. Thus, the second term of the Du Pont analysis is an index of expense control. If the index of assets management efficiency is multiplied by the index of expense control, the result is a magnified index of the company's financial well being. In order to make the analysis more meaningful the ROI of the company must be compared with industry average and with the company's own ROI of the past years. Where the company's ROI is below the industry average, the Du Pont analysis provides sufficient clue to deficiency in asset management or absence of effective expense control or both. Further, if a comparative study of the company's ROI of the past few years reveals declining tendency, if focuses attention on the management efficiency of the company. Thus calls for prompt corrective action before the situation goes out of control.

OBJECTIVES OF THE STUDY

1. To analyses the profitability of select cement companies in terms of operating profit (OPR) net profit margin (NP), assets turnover ratio (ATR) return on assets (ROA) and return on equity (ROE).
2. To examine the return on investment (ROI) of select cement companies by using the Due Pont approach.

RESEARCH METHODOLOGY

The present study is based on secondary data consist of annual reports, research periodicals, text books, websites and other published sources. The data collected from the above source for the period of 5 years from 2013 to 2017. Aggregate financial variables relating to profitability of select cement companies are processed, tabulated, analyzed and interpreted for a period of 5 years i.e. from 2013 to 2017 with the help of statistical techniques like percentage, ratios, Averages, Standard Deviation (SD) and coefficient of variation (CV) and also Du Pont Approach.

SAMPLING DESIGN

There are several private & public cement industries operating in India. The researcher has selected some of them. One is CCI (cement corporation of India) public company and others are Ultra Tech and ACC.Ltd. private companies.

RESULTS AND DISCUSSION

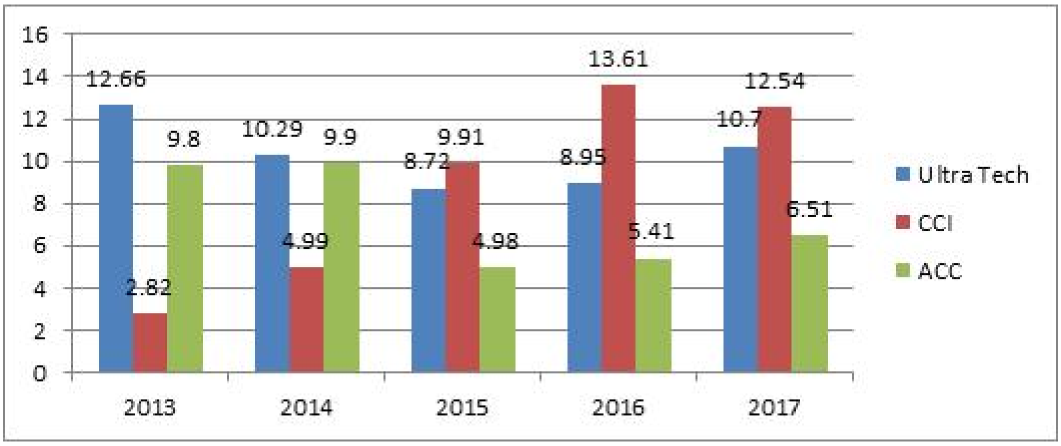
Table – 1: Operating profit margin of select cement companies. (in %)

Year	Ultra Tech	CCI	ACC
2013	18.28	7.19	10.88
2014	13.33	8.69	9.54
2015	12.27	12.22	6.49
2016	13.60	16.19	7.21
2017	15.26	15.18	15.67
Mean	**14.54**	**11.89**	**9.95**
SD	**2.34**	**3.92**	**3.64**
CV	**16.11**	**33.03**	**36.62**

Source: *Compiled from Annual report of select cement companies.*

From the above table illustrates the trends of operating profit margin of the select cement companies during the study period. It shows that the operating profit ratios are decreased from 18.28% to 15.26% from 2013 to 2017 in ultra Tech , 10.88% to 7.21 % from 2013 to 2016 in ACC Ltd. But there is increased 15.67% during the year 2017. In case of CCI the operating profit ratio are increased 7.19% to 16.19% from 2013 to 2016 . decreased during the year 15.18% compared to 2016. The highest average ratio is registered as 14.54 in ultra Tech and the standard deviation is 2.34 with co – efficient of variation as 16.11 the least average operating profit ratio is stood at 9.95 and the standard deviation 3.64 with the co-efficient of variation as 36.62% in ACC Ltd.

Chart – 1: Net profit margin of select cement companies. (in %)



From the above chart illustrates the trends of Net profit margin of the select cement companies during the study period. It shows that the Net profit ratios are Decreased from 12.66% to 10.70% from 2013 to 2017 in ultra Tech , 9.80 % to 6.51 % from 2013 to 2017 in ACC Ltd. In case of CCI the net profit ratio are increased 2.82% to 13.61% from 2013 to 2016 . decreased during the year 12.54% compared to 2016. The highest average ratio is registered as 10.26 in ultra Tech and the standard deviation is 1.58 with co – efficient of variation as 54.33 the least average operating profit ratio is 7.31 and the standard deviation 2.37 with the co- efficient of variation as 32.46 in ACC Ltd.

Table – 2: Assets Turnover ratio of select cement companies. (in %)

Year	Ultra Tech	CCI	ACC
2013	0.78	0.47	0.93
2014	0.69	0.55	0.95
2015	0.69	0.67	0.93
2016	0.65	0.61	0.85
2017	0.61	0.53	1.01
Mean	0.684	0.566	2.734
SD	0.063	0.076	0.934
CV	9.21	13.42	34.16

Source: *Compiled from Annual report of select cement companies.*

From the above table illustrates the trends of Assets turnover ratio of the select cement companies during the study period. It shows that the assets turnover ratios are Decreased from 0.78% to 0.61% from 2013 to 2017 in ultra Tech , increase in 0.93 % to 0.95 % from 2013 to 2014 and decreases from o.95 to 0.85 in the year 2014 to 2016 and increase during the year at 1.01 % in ACC Ltd. In case of CCI the Assets turnover ratio are increased 0.47% to 0.61% from 2013 to 2016 . Decreased during the year 0.53% compared to 2016. The highest average ratio is registered as 2.73 in ACC Ltd and the standard deviation is 0.93 with co – efficient of variation as 34.16 the least average Assets turnover ratio is

0.56 and the standard deviation 0.076 with the co- efficient of variation as 13.42 in CCI

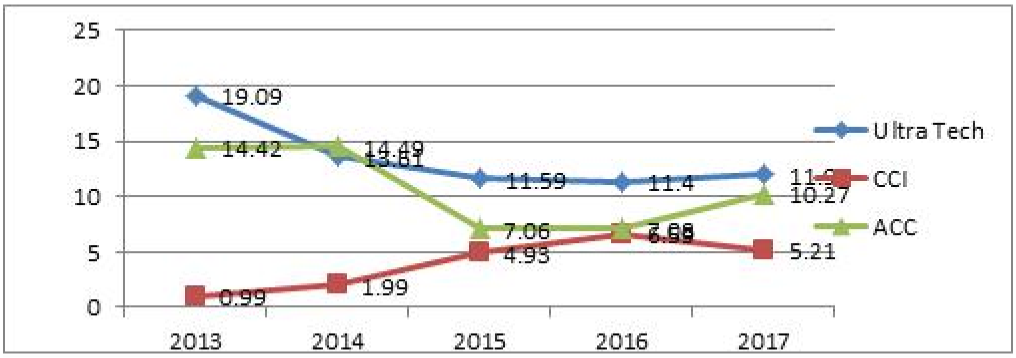
Table – 3: Return on assets ratio of select cement companies. (in %)

Year	Ultra Tech	CCI	ACC
2013	9.83	1.34	9.11
2014	7.14	2.76	9.38
2015	5.97	6.65	4.61
2016	5.80	8.34	4.62
2017	6.54	6.66	6.55
Mean	7.056	5.15	6.854
SD	1.635	2.955	2.323
CV	23.17	57.37	4.712

***Source:** Compiled from Annual report of select cement companies.*

From the above table illustrates the trends of return on assets of the select cement companies during the study period. It shows that the assets turnover ratios are Decreased from 9.83% to 6.54% from 2013 to 2017 in ultra Tech , 9.11% to 6.55 % from 2013 to 2017 in ACC Ltd. and increases from 1.34% to 6.66% in the year 2013 to 2017. and The highest average ratio is registered as 7.056 in ultra tech and the standard deviation is 1.635 with co – efficient of variation as 23.17 the least average return on assets ratio is 5.15 and the standard deviation 2.955 with the co- efficient of variation as 57.37 in CCI.

Chart – 2: Return on Equity ratio of select cement companies.



From the above chart illustrates the trends of return on equity of the select cement companies during the study period. It shows that the return on equity ratios are Decreased from 19.09% to 11.95% from 2013 to 2017 in ultra Tech , 14.42% to 7.08 % from 2013 to 2016 and increase to 10.27% in 2017 in ACC Ltd. and increases from 0.99% to 6.56% in the year 2013 to 2016 and decrease to 5.21%during the year in CCI Ltd. The highest average ratio is registered as 13.528 in ultra tech and the standard deviation is 3.229 with co – efficient of variation as 23.86 the least average return on equity ratio is 3.942 and the standard deviation 2.351 with the co- efficient of variation as 59.63 in CCI .

Table – 4: Return on investment (in %) Du Pont Approach

Year	Ultra Tech			CCI			ACC		
	AT	PM	ROI	AT	PM	ROI	AT	PM	ROI
2013	0.77	13.26	10.24	0.47	2.82	1.32	0.93	9.80	9.15
2014	0.69	10.29	7.10	0.55	4.99	2.74	0.95	9.90	9.40
2015	0.69	8.72	6.07	0.67	9.91	6.64	0.93	4.98	4.63
2016	0.65	8.95	5.81	0.61	13.61	8.30	0.85	5.41	4.59
2017	0.61	10.70	6.52	0.53	12.54	6.65	1.01	6.51	6.58
Mean			**7.1**			**5.13**			**6.87**
SD			**1.79**			**2.95**			**2.33**
CV			**24.78**			**57.50**			**33.91**

***Source:** Compiled from Annual report of select cement companies.*

The analysis of the return on investment of the sleeted cement companies is presented in Table 4 during the study period of five years i.e. from 2013 to 2017 as the first term of the Du Pont Approach equation is efficiency of assets management it is observed that the ACC Ltd shows an increase in the total assets turnover ratio at the end of the year 2017. When compare to the other selected companies. But profit margin index was found lowest in ACC ltd. average ROI is highest in Ultra Tech with 7.1 % with 1.79% of SD and CV is 24.78%. and least ROI is 5.13% with SD 2.95 %and CV 57.50%.

FINDINGS OF THE STUDY

1. All the select cement companies have shown an average profit ratio ranging between 9% to 15% during the study period.
2. The highest operating profit ratio is found in ultra tech with 18.28% in the year 2013 and lowest

operating profit ratio is registered as 6.49% in the year 2015 in ACC ltd. among the select cement companies during the study period.

3. All the select cement companies have shown an average net profit ratio ranging between 7% and 10% during the study period.
4. The highest net profit ratio is found in CCI with 13.61% in the year 2016 and lowest net profit ratio is registered as 2.82% in the year 2013 in CCI . among the select cement companies during the study period.
5. Study reveals that The highest Return on assets ratio is found in ultra tech with 9.83% in the year 2013 and lowest return on assets ratio is registered as 1.34% in the year 2013 in CCI . among the select cement companies during the study period.
6. It is found that the highest average return on equity ratio is registered as 13.528 in Ultra Tech. and least average return on equity ratio is 3.942% in CCI.
7. Return on investment is one of the most simple techniques ever conceived to aid decision making and performance evaluation. According to equation of Du Pont Approach in calculating ROI, the first index reflects the assets management (measured in terms of total assets turnover) and second index reflects the expense control(measured in terms of net profit margin).
8. The average ROI is highest in Ultra Tech with 7.1 % it might be due to the good improvement in assets turnover, which implies the efficient management of assets and better profit margin which denotes the efficient control of expenses from 2013 to 2017. Followed by ACC Ltd. With 6.87%.

CONCLUSION

The efficiency of a firm depends upon the working operation of the concern. Profit earning is considered essential for survival of the business. The operating profit ratio and net profit ratio are comparatively lower in the ACC Ltd followed by CCI Ltd.among the select cement Companies these ratios indicates of management ability to operate thebusiness with sufficient success not only suggested that to improve their profit ratios. And the analysis according to Du Pont Approach reveals that the return on investment is found to be less in the case of CCI. That the all select companies have the average ROI, but In CCI found the lowest ROI among the select cement companies. Since it is the ultimate index of performance evaluation. So finally it is concluded that the among all select cement companies CCI is one of the public company comparing to the private companies it have the lowest ROI. So it is suggest that the CCI company improve the ROI by taking appropriate measures such as assets turnover and resorting to expenses control.

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