TEST Engineering & Management

*November-December 2019*
*ISSN: 0193-4120 Page No. 9299 - 9304*

# A Comparative Study on Financial Performance of Ultra Tech Cement Limited and Acc Cement Limited

Dr. A. S. Hema and T. Kasthuri

Assistant Professor, PG & Research Department of Commerce, Government Arts College for Women, Salem-8.

***Article Info***
***Volume 82***
***Page Number: 9299 - 9304***
***Publication Issue:***
***January-February 2020***

***Article History***
***Article Received**: 18 May 2019*
***Revised**: 14 July 2019*
***Accepted**: 22 December 2019*
***Publication**: 10 February 2020*

***Abstract:***
India and China occupy the top positions at the world level in various sectors. The first rank and the second rank in the world's cement sector have been occupied by China and India respectively as indicated by million tons per annum (MTPA). The cement production capacity of India was found to be 502 MTPA during the year 2018 while an addition of 20 MTPA is expected in 2019 to 2021. The oldest cement manufacturer of India is ACC Cement whereas Ultra Tech Cement is not only the largest cement manufacturer in India but also one of the leading cement manufacturers of the world. Since the last few decades, infrastructure in India has gained the momentum. As such, being the major contributors to the infrastructure industry, it is deemed appropriate to examine the financial performance of the toppers of the Indian Cement Industry. This paper makes an attempt to analyze the comparative performance of these two giants of the industry for a period of five years from 2014 to 2018. The secondary data required for the study have been collected from the published annual reports of these companies.

***Keywords:*** *Financial performance, comparative analysis, profitability*

## INTRODUCTION

India is the second largest producer of cement in the world. The cement industry has been expanding on the back of increasing infrastructure activities and demand from the housing sector. The Indian cement industry is dominated by a few companies. The top 20 cement companies account for almost 70 per cent of the total cement production of the country. A total of 210 large cement plants account for a cumulative installed capacity of over 350 million tons, with 350 small plants accounting for the rest. In 2016 county`s cement production capacity has been reached 395 million tons, which is expected to be further increased to 550-600 million tons by 2025. The government has initiated many programmes on infrastructure development such as bharatmala pariyojana, airports, metros, affordable housing smart cities will stoke the economy`s growth in the medium term. This leads Indian cement industry to achieve a remarkable growth in the coming years. The rural housing demand and the low cost housing program play a major role in the development of this industry.

### Ultra Tech Cement

Ultra Tech Cement is the largest cement manufacturer at the national level and one of the leading cement manufacturers at the global level. The company has been identified as the largest manufacturer of cement varieties like grey cement, white cement and ready mix concrete (RMC). With the 12 composite plants, one plant each for white cement, wall care putty plant and clinkerisation plant in UAE, 16 grinding units including plants in UAE, Bahrain and Bangladesh and six bulk terminals in India and Sri Lanka, Ultra Tech has a strong presence in international markets such as Bangladesh, UAE, Sri Lanka and Bahrain. The dealer and retailer network of the company exceeds over 80,000 partners throughout the country to cover more than 80% Indian cities and towns. The major focus areas of the company include climate change, health and safety, energy conservation, water conservation, biodiversity and natural resource substitution.

### Acc Cement

Being established in 1936, ACC cement is the oldest and one of the largest cement manufacturing companies in India. It was formerly known as the Associated Cement Companies Limited and its registered office is called Cement House. As the first company in India, its commitment to environment protection has won several prizes and brought laurels

TEST Engineering & Management

*November-December 2019*
*ISSN: 0193-4120 Page No. 9299 - 9304*

and accolades to the company for its environment friendly measures. The efforts of the company towards good corporate citizenship paved the way for felicitations and appreciations to the company.

## LITERATURE REVIEW

Geetha T.N. and Ramasamy S (2016) in their study made an attempt to analyze the overall performance efficiency of the Indian Cement Industry. For this purpose, the data relating to twelve years from 2001-2002 to 2012-2013 have been collected from the secondary sources and analyzed. The authors have employed ratio analysis and compound annual growth rate (CAGR) to measure the performance efficiency

Devi M and Mugunthan C (2017) in their study found that the profitability ratio of the companies Ultra Tech Cement limited and India cement limited were satisfactory. The short term liquidity position of Ultra Tech Cement limited was not satisfactory as indicated by its current ratio and quick ratio level was below one. It was concluded that both the companies are financially satisfactory with the suggestion that Ultra Tech Cement limited has to improve their short term solvency position.

Yasodha et al (2019) analyzed the cash flow position of JKCC and UTCC. This study analyses the cash flow statement in different stages and activities of the selected companies

Objectives of The Study

- This study has been conducted with the focus on the following objectives:
- To compare the profitability ratio of sampled two cement companies during the period of (2014-2018) study.
- To identify the factors that influence the profitability status of the two selected cement companies, Ultra Tech Cement and ACC cement

## DATA ANALYSIS

PROFITABILITY RATIO: Profitability ratios are the metrics mostly used in financial analysis and there are two types of profitability ratios: profit margin ratio and rate of return ratio.

Operating profit Margin and EBIT Margin

Operating profit margin is a profitability or performance measure used to calculate the per centage of profit of a business from its operations before deducting tax and interest charges. It is calculated by dividing operating profit by total revenue and expressed as a per centage.

Operating Profit Ratio = Operating Cost/ Net Sales × 100

EBIT Ratio is useful to compare two companies, especially within a given industry, and it also helps to evaluate how a company has grown over time. The EBIT Margin is defined as:

EBIT Margin = (Operating Profit +Other Income)/ Sales × 100

**Table 1.** Operating Profit Margin and EBIT Margin

| **Year** | **Name of Company** | | | |
|---|---|---|---|---|
| | **ACC Cement** | | **Ultra Tech Cement** | |
| | **Operating Profit Margin** | **EBIT Margin** | **Operating Profit Margin** | **EBIT Margin** |
| 2013 – 2014 | 12.84 | 7.90 | 18.82 | 13.41 |
| 2014 – 2015 | 13.03 | 7.42 | 18.29 | 13.13 |
| 2015 – 2016 | 12.69 | 7.20 | 19.51 | 13.76 |
| 2016 – 2017 | 14.37 | 9.45 | 20.80 | 15.07 |
| 2017 – 2018 | 13.81 | 9.67 | 19.75 | 13.55 |
| Mean | 13.35 | 8.33 | 19.43 | 13.78 |
| Standard Deviation | 0.72 | 1.16 | 0.96 | 0.75 |
| Co-efficient of Variance | 5.36 | 13.87 | 4.92 | 5.47 |

Source: Calculated on the basis of annual reports of two cement industrie.

It could be understood from the table 1 that the operating profit margin of ACC limited has increased from 12.84 per cent to 13.81 per cent during the period of study. The average operating profit margin of this company was found to be 13.35 per cent while the standard deviation and coefficient of variation was 0.72 per cent and 5.36

November-December 2019
ISSN: 0193-4120 Page No. 9299 - 9304

per cent respectively. The operating profit margin of ultra tech cement was raised from 18.82 per cent to 19.75 per cent during the study period with the average of 19.43 per cent and the standard deviation of 0.96 per cent. The coefficient of variation was ascertained to be 4.92 per cent. It denotes that the operating profit margin of ultra tech cement was higher and consistent than that of ACC cement.

It is divulged from the analysis that the earnings before interest and tax pertaining to ACC limited at the beginning of the study period was 7.90 per cent and at the end of the study period was 9.67 per cent. The average earnings before interest and tax of this a company were 8.33 per cent with the standard deviation of 1.16 per cent and coefficient of variance of 13.87 per cent. In the case of ultra tech cement, the earnings before interest and tax have increased from 13.41 per cent to 13.55 per cent during the period of study. The average earnings before interest and tax were ascertained to be 13.78 per cent whereas the standard deviation was 0.75 per cent and the coefficient of variation was 5.47 per cent. It reveals that EBIT of Ultra Tech Cement was higher than that of acc limited. However, the increase in EBIT of Ultra Tech Cements was marginal and the EBIT of ACC limited has increased rapidly.

Net Profit Margin and Return on Capital Employed

The net profit ratio measures the overall profitability of the company taking into account all direct and indirect costs. A high quota means a positive return for the company and a better one for the company.

Net Profit Margin Ratio = Net profit / Net Sales × 100

The actual returns realized by a company from its capital employed is defined as return on capital employed. A company `s profit margin may be higher than that of another company, but its ability to get better return on its capital may be lower. Thus it greatly helps to compare the relative profitability of two companies

ROCE = [Profit after Tax + Interest] / Net Capital Employed ×100

**Table 2.** Net Profit Ratio and Return on Capital Employed (ROCE)

| **Year** | **Name of Company** | | | |
|---|---|---|---|---|
| | **ACC Cement** | | **Ultra Tech Cement** | |
| | **Net Profit Ratio** | **Return on Capital Employed** | **Net Profit Ratio** | **Return on Capital Employed** |
| 2013 – 2014 | 9.95 | 14.78 | 10.57 | 14.08 |
| 2014 – 2015 | 5.01 | 11.84 | 8.78 | 13.53 |
| 2015 – 2016 | 5.39 | 10.61 | 9.99 | 14.30 |
| 2016 – 2017 | 6.89 | 14.86 | 10.99 | 14.95 |
| 2017 – 2018 | 10.17 | 15.04 | 7.49 | 11.09 |
| Mean | 7.48 | 13.43 | 9.56 | 13.59 |
| Standard Deviation | 2.46 | 2.06 | 1.43 | 1.49 |
| Co-efficient of Variance | 32.84 | 15.33 | 14.92 | 10.94 |

Source: calculated on the basis of annual reports of two cement industries

According to table 2, the Net Profit Margin of ACC limited at the beginning of the study period was 9.95 per cent and at the end of the period was 10.17 per cent. The average net profit margin during the study period was found to be 7.48 per cent while the standard deviation was 2.46 per cent and the coefficient of variation was 32.84. It reveals that the net profit margin of ACC limited was inconsistent. On the other hand, the net profit margin of Ultra Tech Cement has decreased from 10.57 per cent to 7.49 per cent during the period of study. The mean net profit margin was computed to be 9.56 while the standard deviation and coefficient of variation there on were 1.43 per cent and 14.92 per cent respectively. It implies that the net profit margin of Ultra Tech Cement has declined during the study period but it was consistent.

It is evinced that the return on capital employed pertaining to ACC limited increased gradually from 14.78 per cent to 15.04 per cent during the period of study. The average return on capital was found to be 13.43 per cent with the standard deviation and coefficient of variation of 2.06 per cent and 15.33 per cent respectively .On the other hand, the return

November-December 2019
ISSN: 0193-4120 Page No. 9299 - 9304

on capital employed relating to Ultra Tech Cements has witnessed a decline from 14.08 per cent to 11.09 per cent during the study period. The mean return on capital employed of Ultra Tech Cements was ascertained to be 13.59 per cent while the standard deviation was 1.49 per cent and coefficient of variation was 10 .94 per cent. It denotes that net profit margin and return on capital employed of acc limited were on the increase. On the other hand, both the net profit margin and return on capital employed relating to Ultra Tech Cements were found to have declined during the period of study.

### RETURN ON EQUITY AND RETURN ON LONG-TERM FUNDS

Return on Equity measures the profitability of the equity fund invested by the company. It also measures how profitably the owner`s funds were used to generate the company`s revenue. A high quota means that the company is better.

ROE = Net Profit / Share Holders Fund ×100

The estimated long- term return is a hypothetical measure that gives investors an estimated expectation of the return they can expect over the life of an investment. It is most frequently quoted in fixed income securities investments.

Return on Long term fund = EBIT / Long-term Fund ×100

**Table 3.** Return on Equity and Return on Long-Term Funds (ROE)

| Year | Name Of Company: ACC Cement | | Ultra Tech Cement | |
|---|---|---|---|---|
| | Return on Equity | Return on Long-Term Funds | Return on Equity | Return on Long-Term Funds |
| 2013 – 2014 | 14.19 | 14.78 | 12.54 | 14.33 |
| 2014 – 2015 | 7.00 | 11.89 | 10.68 | 14.62 |
| 2015 – 2016 | 6.95 | 10.67 | 10.48 | 15.68 |
| 2016 – 2017 | 9.77 | 14.95 | 10.97 | 15.49 |
| 2017 – 2018 | 14.31 | 15.04 | 8.61 | 11.84 |
| Mean | 10.44 | 13.47 | 10.66 | 14.39 |
| Standard Deviation | 3.66 | 2.04 | 1.40 | 1.54 |
| Co-efficient of Variance | 35.02 | 15.18 | 13.16 | 10.67 |

Source: calculated on the basis of annual reports of two cement industries

Table 3 proclaims that the return on equity of ACC limited increased marginally from 14.19 per cent to 14.31 per cent during the period of study while the return on equality of Ultra Tech Cements has declined drastically from 12.54 per cent 8.61. The average return on equity of the selected companies was 10.44 per cent and 10.66 per cent. It reveals that there is no greater difference between the average return on equity of the selected companies. However, the standard deviation and coefficient of variation relating to return on equity of ACC limited were found to be 3.66 per cent and 35.02 respectively and that of Ultra Tech Cements were 1.40 per cent and 13.16 respectively. It denotes that the return on equity of ACC limited was very consistent while the return on equity of Ultra Tech Cements was consistent revealing thereby investing money in the equity of Ultra Tech Cements is better than investing in the equality of ACC limited.

It is lime lighted that the return on long term funds relating to ACC limited at the beginning of the study period was 14.78 per cent which has increased to 15.04 per cent at the end of the study period. On the other hand, the return on long term funds of Ultra Tech Cements has decreased from 14.33 per cent to 11.84 per cent during the period of study. the average return on long term funds of Ultra Tech Cements (14.39 per cent )was little higher than the average return on long term funds of ACC limited (13.47 per cent). It implies that the performance of Ultra Tech Cements was better than ACC limited with reference to return on long term funds. The Standard Deviation of return on long term funds pertaining to ACC limited and Ultra Tech Cements were found to be 2.04 and 1.54 respectively while the coefficient of variation of these companies were 15.18 and 10.67 respectively. It indicates that Ultra Tech Cements has recorded consistent performance during the period of study.

Earnings per Share and Dividend per Share:

The portion of the company`s distributable profit is called earnings per share. It is allocated to each outstanding equity share. We can compare two companies with the help of earnings per share. If the earnings per share is higher, the company is more

November-December 2019
ISSN: 0193-4120 Page No. 9299 - 9304

profitable and has more profits to distribute to its shareholders.

Earnings per Share = (Net profit after Tax – Preference Dividends) / No. of Equity Shares Outstanding or Issue

A dividend per share denotes the number of dividends issued by a company to every outstanding share on a per share basis. The basic voting shares of a corporation are ordinary shares or common shares. The shareholders do not have any predetermined dividend amount and are usually permitted one vote per share. Increased dividend per share is the indicator for the better performance of the company.

Dividends per Share = (Total dividends paid) / No. of Equity Shares Outstanding or Issued

**Table 4.** Earnings per Share and Dividend per Share

| Year | Name Of Company | | | |
|---|---|---|---|---|
| | **ACC Cement** | | **Ultra Tech Cement** | |
| | **Earnings per Share** | **Dividend per Share** | **Earnings per Share** | **Dividend per Share** |
| 2013 – 2014 | 62.23 | 34.00 | 78.20 | 9.00 |
| 2014 – 2015 | 31.51 | 17.00 | 73.42 | 9.00 |
| 2015 – 2016 | 32.08 | 17.00 | 86.37 | 9.50 |
| 2016 – 2017 | 48.75 | 26.00 | 95.72 | 10.00 |
| 2017 – 2018 | 80.23 | 14.00 | 81.25 | 10.50 |
| Mean | 50.96 | 21.60 | 82.99 | 9.60 |
| Standard Deviation | 20.76 | 8.26 | 8.53 | 0.65 |
| Co-efficient of Variance | 40.73 | 38.26 | 10.28 | 6.79 |

Source: calculated on the basis of annual reports of two cement industries

From the table 4, it is evident that the average earning per share of Ultra Tech cements (Rs.82.99) was much higher than that of ACC limited (Rs.50.90). The earnings per share of ACC limited ranged between Rs.31.51 and Rs.80.23 during the period of study. The lowest earnings per share was found in the year 2014-15 and the highest earnings per share was recorded during the year 2017-18. In the case of Ultra Tech Cements, the earnings per share varied from Rs. 73.42 to Rs.95.72 during the study period. The higher earnings per share of this company were recorded during the year 2016-17 whereas the lowest earnings per share were registered in the year 2014-15. It could be noted from the standard deviation (Rs. 20.76) and coefficient of variation (40.73 per cent) of ACC limited and the standard deviation (Rs.8.53) and the coefficient of variation (10.28 per cent) of Ultra Tech Cements that Ultra Tech Cements has yielded consistent earnings per share during the period of study.

The dividend per share of ACC limited has declined drastically from Rs.34.00 to Rs.14.00 during the period of study while the dividend per share paid by Ultra Tech Cements has increased gradually from Rs.9.00 to Rs.0.50 during the study period. The average dividend per share of ACC limited (Rs. 21.60) was much higher than that of Ultra Tech Cements (Rs.9.60). However, with reference to the standard deviation of Rs.8.26 and coefficient of variation of 38.26 per cent pertaining to ACC limited reveals the fact that the dividend per share was inconsistent when compared with the standard deviation of Rs 0.65 and the coefficient of variation of 6.79 per cent relating to Ultra Tech Cements.

## FINDINGS

**Table 5**

| **Particulars** | **ACC Cement** | | **Ultra Tech Cement** | |
|---|---|---|---|---|
| Operating Profit | 13.35 | (-) | 19.43 | (+) |
| PBIT | 8.33 | (-) | 13.78 | (+) |
| Return on Capital Employed | 13.43 | (-) | 13.59 | (+) |
| Net Profit Ratio | 7.48 | (-) | 9.56 | (+) |
| Return on Equity | 10.44 | (-) | 10.66 | (+) |
| Return on Long-Term Funds | 13.47 | (-) | 14.39 | (+) |
| Earnings per Share | 50.96 | (-) | 82.99 | (+) |
| Dividend per Share | 21.60 | (+) | 9.60 | (-) |

## CONCLUSION

Ultra Tech, with its expansion over the past three years is very well positioned to participate in the growth of the economy. Unlike ACC, the Ultra Tech`s operating margin has improved more than 100 basis points year-on-year to 21%. This was due to a sharp decline in freight and other operating expenses. In the case of ACC, the costs increased due to the lower supply of linkage coal and an

*November-December 2019*
*ISSN: 0193-4120 Page No. 9299 - 9304*

increased mix of indigenous petroleum coke. Its operating margins missed the estimates. Improving the performance of the acquired assets from Binani cement ltd and Jaypee cement, which resulted in an overall better capacity upgrade, was also positive for Ultra Tech. In addition, the company currently sells non–core assets acquired in the United Arab Emirates (UAE) and China. The sale proceeds are to be used to reduce the debt level of the company, which will result in achieving better position in the financial performance

The cement industry has experienced double digit growth since the last two years since FY2018, following a period of rapid growth. However, the increase in new capacity remains relatively low. The additional capacity added during the year was 12 mpa compared to increasing demand of 38 million tons. This has resulted in improved capacity utilization in industry and will further improve the relationship between demand and supply. The government`s push to develop infrastructure, namely the construction of concrete roads, subway railways, airports, irrigation projects and accelerating low-cost housing program execution, is also expected to increase in the future will lead to sustained growth in demand for cement. This is a good sign for the industry. Ultra Tech has been well positioned to participate in economic growth over the past three years.

## REFERENCES

Articles

1. Pankaj Yadav (*2017) "An Analysis of Indian Cement Industry Based on Profitability Performance"* July-December 2017, Volume 6, No. 2 pp. 419-432
2. Tamilselvan, M., & Manjula, V. (2016). Price earnings ratio and financial performance Nexus using panel data regression model: The case of Oman. International Journal of Business Management & Research (IJBMR), 6(2), 79-84.
3. Devi M (2017). *"A Study on Financial Performance of Cement Companies in India with Reference to Ultra tech Cement Limited and India Cement Limited - A Comparative Analysis"* Volume 5 | Issue 2 | February 2017 ISSN (Print): 2321–5739
4. Khatib, A., & Telford, S. (2018). A Comparative Analysis of Selected Sectors of the Kuwaiti Economy.
5. Singh, K., & Deokar, A. (2018). Effects of 5S Implementation on Performance of Organization. International Journal of Business and General Management (IJBGM), 7(2), 1-14.
6. Berliandaldo, M., & Hidayat, A. (2017). Implementing Talent Management Approach, to Improve Non-Tax Revenue in Center for Innovation. International Journal of Business and General Management (IJBGM), 6(6), 47-56.
7. Dhiva J (2017) *"A Study on Financial Performance of Cement Industry with special reference to ACC Limited"* Volume 5, Issue 4, ISSN: 2320-2882.
8. Kumar, P. (2017). Relationship between degree of financial leverage and earning per share. IMPACT: International Journal of Research in Business Management (IMPACT: IJRBM), 5(11), 5-10.
9. Yasodha M (2019). *"A Comparative Study on Financial Performance of the J.K. Cement Limited and Ultra tech Cement Limited"* Volume -9, Issue -3, ISSN 2249555x.

Books

1. 1.C.R.Kothari , Gaurav Garg (2017) "Research Methodology Methods & Techniques" New Age International (P) Ltd, 3rd Edition, 2017.
2. 2.Dr.S.P.Gupta (2019) "Financial Management" Brand: sahitya Bhawan publications.

Websites

1. www.moneycontrol.com
2. www.rbi.org
3. www.moneycontrol.com /Annual Reports of ACC from 2013-2014 to 2017-2018
4. www.moneycontrol.com/ Annual Reports of Ultra tech Cement
5. www.investopedia.com
6. www.livetime.com
7. www.Wikipedia
8. www.equitymaster.com
9. www.ibef.org
10. https:// adityatrading .in/ research
11. https//www.investopedia .com
12. www.finstanon.com