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"A STUDY OF FINANCIAL STATEMENT ANALYSIS OF SELECTED CEMENT COMPANIES OF INDIA"

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Abstract:

Cement industry plays a very important role in the development of nation's infrastructure. Here, two cement are selected for the purpose of the study on the basis of market capitalization and the availability of the data. The data for five years are used for the purpose of the study i.e.,2015-16 to 2019-20. The financial year for the study is from April to March. In this research paper, comparison of financial statements of two cement companies is done by the ratio analysis techniques. The ratio analysis is done for comparing the profitability and liquidity ratios of two selected companies. The two-cement companies selected are UltraTech Cement and Shree Cements. It was found from the data that there was no significant difference between profitability ratios and liquidity ratios of UltraTech Cement and Shree Cements.

Keywords: Financial statements, Ratio analysis, cement industry, Profitability, Liquidity

Introduction:

Measuring the firm's financial performance using well framed ratios has been a conventional yet important tool for 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 will help stakeholders to analyze the financial performance and soundness of a firm. The profitability and liquidity ratios have been more important from the viewpoint of various stakeholders.

Profitability ratios like Operating profit ratio, gross profit ratio, net profit ratio, return on equity, return on capital employed shows the company's ability to generate income as compared to the expenses it incurs during a particular time period. It shows the company's final results. Whereas, liquidity ratios like current ratio, quick ratio, inventory turnover ratio are vital to the investors and creditors as it shows the company's ability to cover its short-term obligations. India is the second largest producer of cement in the world. The Cement Industry globally has immense forward and backward linkages with a Nation's economy. For a developing and transitioning economy such as India, the value proposition of the Cement

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Industry is even greater given the immense infrastructure requirements of a growing and urbanizing country, as well as its contributions by way of direct and indirect employment. At the heart of all the planned infrastructure development is the cement sector and, as part of the Country's bouquet of eight core industries, the Cement sector's value proposition for laying the foundations of a new India is unique. India's overall cement production capacity was nearly 545 million tons (MT) in FY20

Review of Literature:

(Hemant, 2018) had in his work titled Financial Performance of Indian Cement Industry: (G. Amudha, 2015) in the research paper titled A Study on the Financial Performance of Cement Companies in Asset Management in South India from 1995-56 to 2013-14, had studied 5 cement companies of South India for the period from 1995-96 to 2013-14 with the objective to study asset management and analyze financial performance of cement companies. Data collected were secondary in nature and with the help of accounting tools like ratio analysis the data were analyzed and reached at conclusion. Asset to total asset ratio and profitability on capital employed were used to do profitability analysis. The statistical tools used were mean and standard deviation. They found that from the selected 5 companies operating profit on capital employed were low due to lower prices than other companies. High gross profit to capital employed showed proactive asset management.

(Dr. Donthi Ravinder, 2013) in the research work, Financial Analysis – A Study, had studied the financial statements of an agro company for the period of 5 years i.e., 2006 to 2011 with the objective to know the solvency position, efficiency, profitability position, long-term and short-term liquidity position and operational performance of the unit. The researchers used primary as well as secondary data for the study. The data were analyzed with the help of accounting tool i.e., comparative statement analysis. The researchers concluded that the sales and raw material were fluctuating; current liabilities, assets and operating profit were increased during the study period whereas cash balance and provisions were fluctuating. Sundry debtors and interest received were also increased but yet the overall performance in financial aspect of the firm was not satisfactory.

(Balaji, 2015) in his research paper, A Study on Financial Performance Analysis at Neycer India Ltd., Vadalur, analyzed the financial performance of Neycer, India. The financial analyses would help to understand how efficient the management is in utilizing and procuring funds. The researcher made an attempt to analyze whether the unit is solvent, stable, profitable and liquid enough to make investments by the investors. The primary objective was to analyze financial performance and secondary objectives were to study the

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position of working capital, growth rate of the unit and evaluation of the capital structure of the unit. The study was conducted for 5 years i.e 2009-10 to 2013-14. With the help of ratio analysis, the researcher found that liquidity position of the firm was not satisfactory and net profit was also declining, also low turnover to asset ratio showed underutilization of the funds by the unit. The study showed the decrease in profit due to increase in the expenses. But the overall performance of the unit was satisfactory.

(Dr. Ashvin R. Dave, 2018) in his paper Financial Performance Analysis of Indian Companies In Information Technology Sector, it analyzes the performance of selected companies from the IT Sector of India. The 5 companies selected were on the basis of market capitalization. The variables viz, Profit After Tax, Sales, Long Term Debt to Equity, Working Capital, Interest Coverage, Cash holdings and Debtors Turnover of the companies for the period of 10 years were examined. The data studied by the researcher were from 2008-2017. The accounting tool i.e., ratio analysis is used to analyze the collected secondary data. The performance of these companies in terms of sales and profit after tax was good. Also, they no do face problems to meet interest obligation as they were equity driven. The working capital performance of the companies was also satisfactory. The holdings of cash by the companies were also well managed. Except Tech Mahindra the performance of other companies was consistent on various parameters. With considerable inconsistency Tech Mahindra managed to be on surface.

(KOUNDAL, 2017) in his work Performance of Indian Banks in Indian Financial System studied the public banks, old private banks, new private banks and foreign banks. The objective was to analyze the comparative performance of the different sector banks and to study opportunities and challenges that are faced by the public sector banks. The data collected were secondary in nature. To examine the performance of the companies selected the ratio analysis are used as accounting tool. The data of the period studied was from 2007-08 to 2010-11. From the study, it was revealed that the profitability of the foreign banks was highest and second highest was of private sector banks but the public sector banks were lagged behind. The non interest incomes of foreign banks were continuously increasing. The NPA of the public sector banks was highest whereas it was lowest in the foreign banks. It was seen that the performance of foreign banks and new private banks was better than performance of public sector banks.

RESEARCH METHODOLOGY:

Source of Data:

The source of data for the study is secondary data. The data is collected from the annual reports of the selected cement companies from their respective company websites.

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Sampling Technique:

For the purpose of this study, deliberate sampling technique is used.

Sample Size:

For the present study two cement companies are selected:

1.UltraTech Cement

2.Shree Cements

Objectives of the study:

1. To measure the liquidity and profitability performance of the selected companies.
2. To compare the liquidity position of the selected companies.
3. To compare the profitability position of the selected companies.

Period of Study:

For the purpose of study, the data is collected for the five years i.e.,

2015-16 to 2019-20

Limitations of the Study:

1.The study is limited to only 2 cement companies.

2.The secondary data was taken from the annual reports of the company. It may be possible that the data shown in the annual reports may be window dressed which does not show the actual position of the company.

3.The study is only conducted on 5 years data.

Tools for analysis:

The tools used for the analysis of this study are:

1. Accounting tool: Ratio analysis

   (Profitability ratio: Net profit ratio, return on equity, return on capital employed;

   Liquidity ratio: Current Ratio, quick ratio and inventory turnover ratio)
2. Statistical tool: t-test

Ratio Analysis:

The profitability ratio and liquidity ratios are used in the study. As profitability shows Profitability ratio is used to evaluate the company's ability to generate income as compared to its expenses and other cost associated with the generation of income during a particular period. And, Liquidity ratios determine a company's ability to cover short-term obligations and cash flows.

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UltraTech Cement

	Profitability Ratios			Liquidity Ratios		
Year	Net Profit Ratio	Return on Equity	Return on capital employed	Current Ratio	Quick Ratio	Inventory Turnover Ratio
2015-16	9.99	10.95	15.68	0.72	0.52	11.83
2016-17	10.99	10.97	15.49	0.76	0.54	12.21
2017-18	7.49	8.60	11.84	0.80	0.54	9.89
2018-19	6.03	8.65	11.96	0.88	0.65	0.84
2019-20	13.42	14.25	13.21	0.91	0.66	0.72

Interpretation: From the above table, it can be said that the Net profit ratio of UltraTech Cement was quite fluctuating in the 5 years and it was highest in the year 2019-20 which shows that net profit generated from net revenue is satisfactory. The return on equity and return on capital employed also were fluctuating but it was less than net profit ratio. The return on equity and return on capital employed were highest in the year 2019-20. So, it can say that the company was able to good returns from its investments from the shareholders. Thus, overall profitability of the UltraTech Cement was good. But the liquidity ratios, current ratio and quick ratio were not satisfactory as they were below ideal standard also the inventory turnover ratio had noticeably declined in the past five which shows weaker sales of the company.

Shree Cements

	Profitability Ratios			Liquidity Ratios		
Year	Net Profit Ratio	Return on Equity	Return on Capital Employed	Current Ratio	Quick Ratio	Inventory Turnover Ratio
2015-16	20.73	16.69	13.77	1.56	0.86	6.76
2016-17	15.58	17.39	14.59	1.65	0.99	6.54
2017-18	14.07	15.55	11.36	1.92	1.39	6.27
2018-19	8.11	9.90	11.40	2.01	1.21	7.38
2019-20	13.19	12.13	13.92	2.13	1.69	8.34

Interpretation: From the above table, it can be said that the net profit ratio of Shree Cement also had fluctuating net profit ratio with highest in 2015-16 which shows that relation

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between net profit and net revenue generated had not been quite satisfactory. The return on equity was highest in 2016-17 although return on equity had declined from 17.39% to 12.13% in 2019-20.The return on capital employed was highest in the year 2016-17. Thus, it can be said that the profitability ratios of Shree Cements show fluctuations but the fluctuations were quite low as compared to net profit ratio. The current ratio, quick ratio and inventory turnover ratio has increased continuously which shows firms improving ability to meet its short-term obligations. The liquidity ratios were highest in 2019-20 i.e., current ratio - 2.13, quick ratio - 1.69 and inventory turnover ratio - 8.34. thus, liquidity position of Shree Cement is satisfactory.

Hypothesis:

H0: there is no significant difference between Net profit ratio of UltraTech Cement and Shree Cement during the study period.

H1: There is significant difference between net profit ratio of UltraTech Cement and Shree Cements during the study period.

H0: There is no significant difference between Return on equity of UltraTech Cement and Shree Cement during the study period.

H1: There is significant difference between Return on equity of UltraTech Cement and Shree Cement during the study period.

H0: There is no significant difference between Return on capital employed of UltraTech Cement and Shree Cement during the study period.

H1: There is significant difference between Return on capital employed of UltraTech Cement and Shree Cement during the study period.

H0: There is no significant difference between current ratio of UltraTech Cement and Shree Cement during the study period.

H1: There is significant difference between current ratio of UltraTech Cement and Shree Cement during the study period.

H0: There is no significant difference between quick ratio of UltraTech Cement and Shree Cement during the study period.

H1: There is significant difference between quick ratio of UltraTech Cement and Shree Cement during the study period.

H0: There is no significant difference between inventory turnover ratio of UltraTech Cement and Shree Cement. during the study period.

H1: There is significant difference between inventory turnover ratio of UltraTech Cement and Shree Cement during the study period.

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Particular	Degree of freedom	t-calculated	t-critical value	H0- Accepted/Rejected
Net Profit Ratio	8	-1.97	2.31	H0- Accepted
Return on Equity	8	-2.07	2.31	H0- Accepted
ROCE	8	0.59	2.31	H0- Accepted
Current Ratio	8	-9.15	2.31	H0- Accepted
Quick Ratio	8	-4.31	2.31	H0- Accepted
In ventory Turnover Ratio	8	0.02	2.31	H0- Accepted

Hypothesis Testing (t-test)

Findings and Conclusion:

By the t-test analysis, the null hypothesis is tested at 5% level of significance and it was found that there is no significant difference between net profit ratio, return on equity, return on capital employed, current ratio, quick ratio and inventory turnover ratio of UltraTech Cement and Shree Cements. As calculated value is less than tabulated value null hypothesizes accepted. The profitability ratios of UltraTech Cement were satisfactory whereas liquidity ratios were not quite satisfactory as they were below ideal standards. The profitability ratios of Shree Cements were satisfactory but had been declining from past years, also, the liquidity ratios were quite satisfactory as current ratio was as per ideal standard. So, it can be said that overall performance of both selected companies was satisfactory.

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