BSSS Journal of Commerce: P-ISSN- 0975-2528, E-ISSN - 2582-4651, Vol. XVI,Issue-I (2024), pp 139-150, Mr. Yashveer Singh Gurjar, Mrs. Shikha Malhotra: Evaluating the Financial Performance of Shree Cements and Ultratech Cements: A Comparative Perspective. https://doi.org/10.51767/joc1610

EVALUATING THE FINANCIAL PERFORMANCE OF SHREE CEMENTS AND ULTRATECH CEMENTS: A COMPARATIVE PERSPECTIVE

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ABSTRACT:

India is the world's second-largest cement manufacturer. It makes sense given that India's cement sector contributes significantly to its economy and directly or indirectly employs more than a million people. So, it becomes important to analyze the financial performance of the firms so that we can easily get through the current scenario of the industry. This research focuses on comparing the leading competitors in the cement industry to gain insights into future trends. Secondary data sourced from platforms like moneycontrol.com and the official websites of the companies formed the basis of this study. The data was subsequently analyzed using Excel and visualized through charts. The study has shown that Shree Cement is earning a better gross and operating profit than Ultra Tech, but when it comes to net profit, return on equity, or assets Ultra Tech is showing better trends than another one. Along with that, it was also concluded that in Covid Situation the cement industry doesn't fall back as much, which clearly shows the higher growth prospects in the future.

Keywords: *Financial Performance, Shree Cements, Ultratech Cements, Gross profit ratio.*

INTRODUCTION

India is the world's second-largest cement producer. India's cement industry holds considerable importance in the nation's economy, providing employment to over a million individuals both directly and indirectly. Since its deregulation in 1982, the Indian cement sector has garnered substantial investments from both domestic and foreign entities. As of 2018, India boasts a cement production capacity of 502 million tons per year (MPTA), making it the world's second-largest cement producer. Forecasts suggest this capacity could rise to 550 MT by 2020. 98 % of the overall capacity is held by the private sector, and the remaining 2 % by the public sector. About 70% of the overall production is accounted for by the top 20 companies. Out of the country's total installed capacity of 410 million tonnes, 350 small cement plants and 210 large cement plants contribute. Among these, Andhra Pradesh, Rajasthan, and Tamil Nadu house 77 of the 210 large cement plants in India.

India produced 297.56 million tonnes of cement in 2017–18, up from 230.49 million tonnes in 2011–12. From fiscal year 2012 to fiscal year 2019, India experienced a compound annual growth rate (CAGR) of 10.54% in exports of cement, clinker, and asbestos cement, resulting in a total of US$ 484.24 million. Concurrently, imports of these materials saw a CAGR of 7.99% during the same period, reaching US$ 158.49 million in fiscal year 2019.To spur economic growth, the Indian government is firmly committed to infrastructure development and has set a goal of creating 100 smart cities. To facilitate cement delivery and lower transportation costs, the government also plans to increase the capacity of the railways and the handling and storage facilities. These actions would raise construction activity, which would increase cement consumption.

India's cement industry is poised to reap substantial benefits from the projected growth in the infrastructure and construction sectors. Notably, initiatives such as the development of 98 smart cities are expected to significantly bolster the industry. International giants like Lafarge-Holcim, Heidelberg Cement, and Vicat are formidable contenders alongside Indian cement leaders like UltraTech Cement, Shree Cement, and Ambuja Cements. Their anticipation of advancements in the nation's infrastructure, coupled with supportive government foreign policies, fuels their competitiveness in the market. The easy accessibility of cement-making ingredients like limestone and coal is a crucial element supporting the expansion of this industry.

With increasing demand across several sectors such as housing, commercial development, and industrial construction, the cement industry is expected to expand to 550-600 Million Tonnes Per Annum (MTPA) by 2025. This growth trajectory is likely to attract significant interest from international firms drawn to the industry's promising profit margins and sustained demand. The primary objective of this paper is to conduct a financial assessment of the Cement Industry by analyzing various financial aspects of leading companies like Ultra Tech Cement Ltd. and Shree Cement Ltd. The selection of these companies is based on their Market Capitalization.

REVIEW OF LITERATURE

Sumathi et al. (2016) conducted a study examining the profitability of the cement industry and conducted a comparative analysis of the financial performance of UltraTech and Orissa Cement. Their research focused on understanding the correlation between firm efficiency and the operational functioning of cement companies. They discovered that both UltraTech and Orissa Cement exhibited unsatisfactory levels of short-term solvency, posing a significant concern for both firms. The findings underscored the necessity for these companies to enhance their solvency positions. **Saranya (2017)** used liquidity and profitability metrics to examine the financial performance of cement enterprises. They drew a sample from three cement companies UltraTech, Shree Cement and Ambuja Cement. This research study covers the five-year data from 2012-2016. The study revealed that Ambuja Cement's liquidity position is better than its rivals. This research indicated that Shree Cement earned more return on capital employed compared to UltraTech and Ambuja Cement. **Muthukumaran et al. (2018)** in this paper five cement companies were chosen for the study based on market capitalization. As per the ratio analysis done the study revealed that shree cement dominates the industry in paying the short-term liability. ACC and Dalmia Bharat have steady growth but are not up to the standard ratio. **Bhagyalakshmi et al. (2016)** conducted an analysis of the profitability of several cement companies, including UltraTech Cement, J.K Cement, The India, Ambuja Cement, ACC, and Madras Cements Ltd., over a span of ten years from 2003-2004 to 2012-13. The study utilized metrics such as P/V Ratio, Operating Profit Ratio, Net Earnings, Dividend Payout Ratio, and Earnings Retention Ratio. According to their findings, Ambuja Cements Ltd. exhibited the highest average P/V ratio, Net Earnings, and Operating Profit Ratio among the selected cement companies.

RESEARCH GAP:

The existing literature on the financial evaluation of the cement industry contributes to addressing several inquiries but also raises numerous unanswered queries. As per the literature reviews mentioned in the study, different authors have approached financial appraisal in their different ways in varying levels of analysis which puts light on extensive and diverse works on financial appraisal. Reviewing the current literature reveals that there has been limited exploration into comparing the financial appraisal of selected cement companies. Many studies have concentrated solely on specific aspects of financial analysis. This study seeks to address this gap by comprehensively examining all facets of the financial appraisal of the chosen cement companies and conducting a comparative analysis.

OBJECTIVE OF STUDY

Previous research has demonstrated a correlation between a company's financial performance and its evolving trends. By comparing different companies, insights can be gained into not only the future growth prospects of individual companies but also the overall trajectory of the industry. The present study tries to evaluate:

1. The overall financial performance of the companies
2. To check the efficiency of the Cement industry.
3. To understand the prospects of the cement industry.

RESEARCH METHODOLOGY

The study is large an empirical investigation of a micro nature and is thus based on secondary data. The data has been mainly collected from the published annual report i.e. Balance sheet, Profit and loss a/c, annual report, audit report sources and uses of funds of UltraTech Cements and Shree Cements. The entire research about the Financial Appraisal of the Cement Industry has been done with the help of making comparative analysis. Here the comparison is done in different financial aspects. This comparison has been facilitated by doing ratio analysis, and other tools of financial analysis and through statistical techniques of averages, percentages, and co-efficient of variance have been deployed at appropriate places to analyze the data and drive meaningful results. MS Excel was used to generate ratios and charts for comparison. The study was based upon secondary data as the data is collected from official sites, documents, books and money control.com

DATA ANALYSIS:

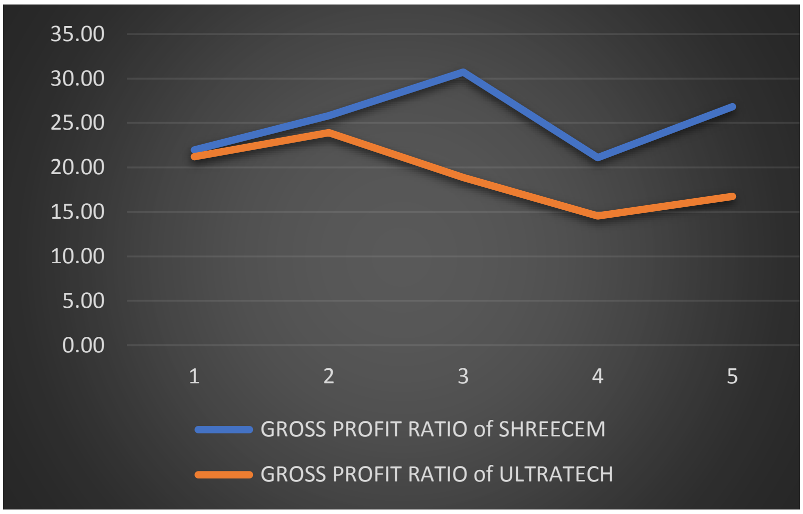
The analysis is concerned with a scientific evaluation of the profitability and financial strength of any business concern. Financial appraisal and financial strength analysis have the same meaning and are generally used as synonyms. A financial appraisal is a process of scientifically making a proper, critical, and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. Analyzing financial statements is the first step before evaluating the analyst's or management accountant's conclusions. Such outcomes are subsequently subject to appraisal or evaluation by management. The companies are evaluated based on Gross profit, operating profit, net profit, etc.

⇒ GROSS PROFIT RATIO

Gross profit is derived by subtracting the cost of goods sold from the company's total sales, enabling an analysis of the firm's margins. The gross profit ratio will help in measuring the performance of the firm. The below table shows the gross ratio and profit of the firms from 2016-2021:

YEAR	GROSS PROFIT		SALES		GROSS PROFIT RATIO (%)	
	SHREECEM	ULTRATECH	SHREECEM	ULTRATECH	SHREECEM	ULTRATECH
20-21	3967.4	10750	18049	50663	21.98	21.22
19-20	4165.62	10330	16128	43188	25.83	23.92
18-19	3659.63	7674.7	11904	40649	30.74	18.88
17-18	2473.11	5813.6	11722	39999	21.10	14.53
16-17	2726.56	5065.4	10160	30252	26.84	16.74

From 2017 to 2021, ShreeCem consistently had higher gross profits compared to UltraTech in most years. This indicates that ShreeCem generally managed to produce more efficiently and generate higher profits. In particular, ShreeCem had higher gross profits in 2018, 2019, and 2020, highlighting its ability to manage low-cost production effectively. However, in 2017, UltraTech had lower gross profits, suggesting that the company faced challenges in production efficiency during that year. Overall, ShreeCem exhibited better performance in terms of managing profitability and production efficiency during the given period.

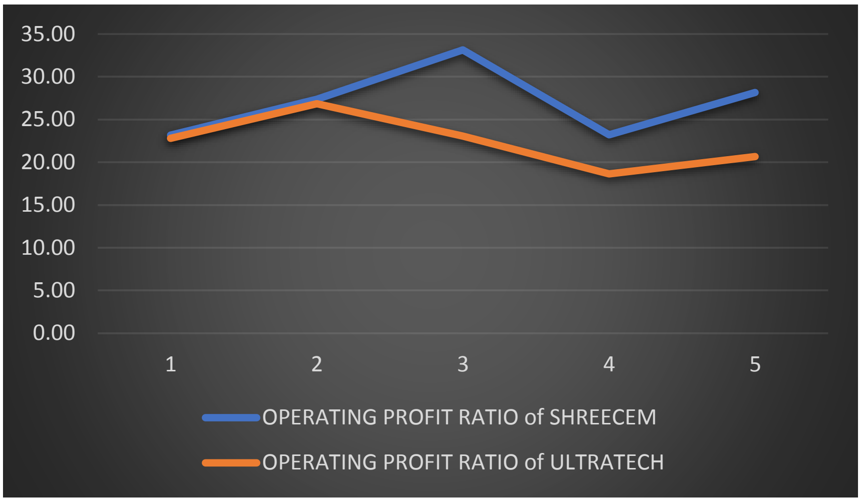


⇒ OPERATING PROFIT RATIO

The income generated by a company's main business activities is known as operating profit. In other words, it is the amount of cash a business has remaining after incurring its operational expenses (gross profit) but before filing taxes. The table below shows the ratio which helps in assessing the effecting of the companies:

YEAR	OPERATING PROFIT		SALES		OPERATING PROFIT RATIO	
	SHREE CEM	ULTRATECH	SHREE CEM	ULTRATECH	SHREE CEM	ULTRATECH
20-21	4185.18	11548	18049	50663	23.19	22.79
19-20	4412.72	11590	16128	43188	27.36	26.83
18-19	3946.15	9378.9	11904	40649	33.15	23.07
17-18	2720.09	7462	11722	39999	23.20	18.66
16-17	2861.83	6256.6	10160	30252	28.17	20.68

In terms of the operating profit ratio, Shree Cem consistently outperformed UltraTech from 2017 to 2021. This indicates that ShreeCem was more efficient in managing its operating expenses and generating higher operating profits. Specifically, ShreeCem had higher operating profit ratios in 2017, 2019, 2020, and 2021, showcasing the company's ability to consistently improve its performance over time. On the other hand, UltraTech had lower operating profit ratios in 2018, suggesting that the company faced challenges in efficiently managing its operating profit, which had an impact on its sales margin. Overall, ShreeCem demonstrated better performance in terms of operating efficiency and profitability compared to UltraTech during the given period.



⇒ NET PROFIT RATIO

It is a metric used in accounting that expresses a company's profit as a proportion of revenue. It expresses the amount of profit the business generates for every penny of income generated from the business. The below table shows the overall profit of the firms:

YEAR	NET INCOME		SALES		NET PROFIT RATIO	
	SHREE CEM	ULTRATECH	SHREE CEM	ULTRATECH	SHREE CEM	ULTRATECH
20-21	14989.7	51634	18049	50663	83.05	101.91
19-20	13059.7	43551	16128	43188	80.97	100.84
18-19	12170.7	41738	11904	40649	102.24	102.68
17-18	11998	40433	11722	39999	102.35	101.08
16-17	10214.1	30071	10160	30252	100.54	99.40

In terms of net profit ratio, Shree Cem had a higher ratio compared to UltraTech in most of the years from 2017 to 2021. This indicates that ShreeCem was generally more effective in managing

its expenses and generating higher net profits. Specifically, ShreeCem had higher net profit ratios in 2017, 2020, and 2021, suggesting that the company had effective expense management

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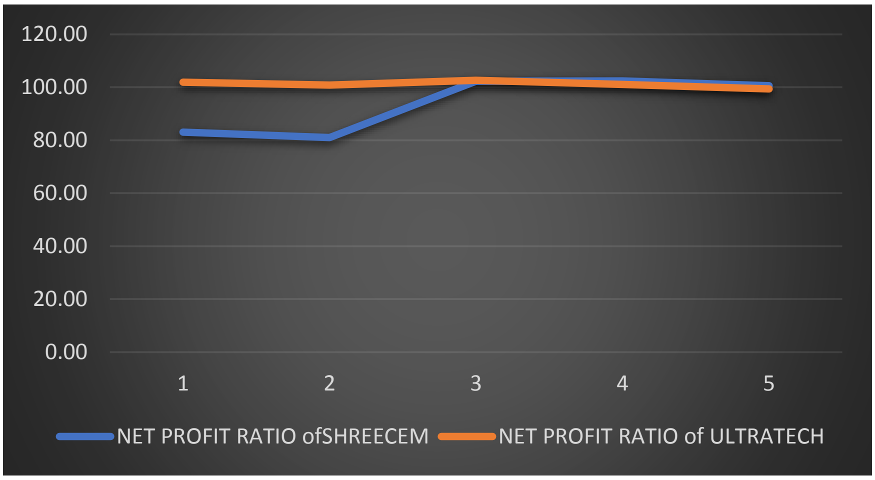
and possibly a well-implemented pricing strategy. In 2018, UltraTech had a lower net profit ratio, indicating that the company needed to improve its pricing strategy to enhance profitability. In 2019, both companies had similar net profit ratios, implying that both companies effectively managed their expenses and earned profits during that year. Overall, ShreeCem demonstrated better performance in terms of expense management and net profitability compared to UltraTech during the given period.



⇒ RETURN ON EQUITY

Return on equity helps in assessing the profitability of the owners of the come. It shows how much they have earned on their investment. The below table shows the returns of the investor:

YEAR	NET INCOME		EQUITY		RETURN ON EQUITY	
	SHREECEM	ULTRATECH	SHREECEM	ULTRATECH	SHREECEM	ULTRATECH
20-21	14989.7	51634	17271	49271	0.87	1.05
19-20	13059.7	43551	15250	43353	0.86	1.00
18-19	12170.7	41738	12936	38296	0.94	1.09
17-18	11998	40433	9597.4	33297	1.25	1.21
16-17	10214.1	30071	8896.8	25923	1.15	1.16

In terms of return on equity, ShreeCem consistently had a higher ratio compared to UltraTech in most of the years from 2017 to 2021. This indicates that ShreeCem was generally more profitable in utilizing its equity. Specifically, ShreeCem had higher return on equity ratios in 2017, 2020, and 2021, suggesting that the company effectively converted its equity into profit.

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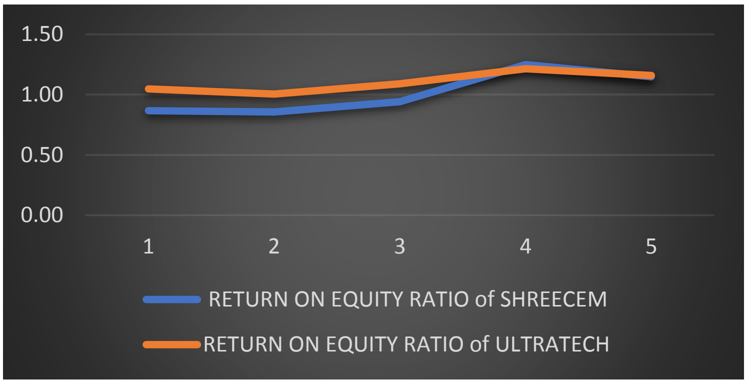
In 2019, UltraTech had a lower return on equity compared to ShreeCem, indicating that the company did not efficiently utilize its equity. However, in 2018, both companies had approximately the same return on equity, indicating that both companies effectively managed the income generated from their equity. Overall, ShreeCem demonstrated better performance in terms of profitability and efficient utilization of equity compared to UltraTech during the given period.

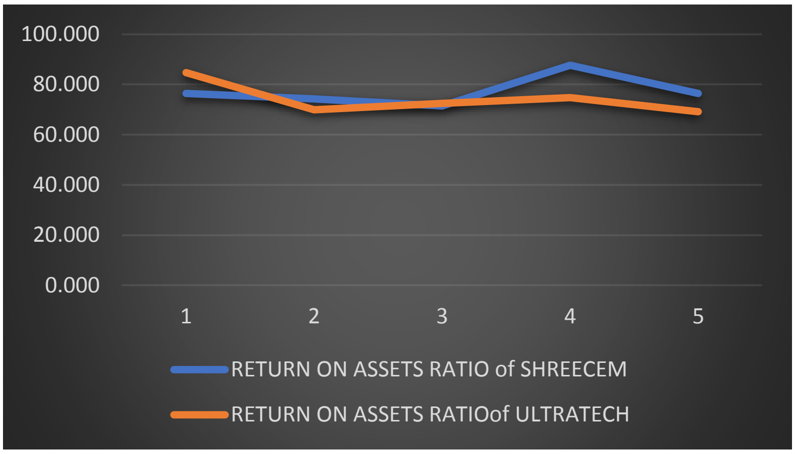


⇒ **RETURN ON ASSETS**

The Return on Assets alludes to a monetary ratio that demonstrates a business's profitability relative to its assets. The following table shows the efficiency of the company towards its assets:

YEAR	NET INCOME		ASSETS		RETURN ON ASSETS	
	SHREE CEM	ULTRATECH	SHREE CEM	ULTRATECH	SHREE CEM	ULTRATECH
20-21	14989.7	51634	19627	60940	76.37	84.73
19-20	13059.7	43551	17591	62333	74.24	69.87
18-19	12170.7	41738	17035	57611	71.45	72.45
17-18	11998	40433	13696	54083	87.61	74.76
16-17	10214.1	30071	13370	43514	76.40	69.11

In terms of return on assets, ShreeCem consistently had a higher ratio compared to UltraTech in most of the years from 2017 to 2021. This indicates that ShreeCem was generally better at managing its assets and generating income from them. Specifically, ShreeCem had higher return on assets ratios in 2017, 2020, and 2021, suggesting that the company effectively managed its assets to generate income. In contrast, UltraTech had a lower return on assets compared to ShreeCem in 2019 and 2018, indicating that the company was more asset-intensive and had lower asset productivity. Overall, ShreeCem demonstrated better performance in terms of asset management and income generation from assets compared to UltraTech during the given period.



⇒ CAGR

The compound annual growth rate refers to the rate of yearly growth of a stake over a time frame that goes beyond a year. It stands for one of the most precise techniques to figure out yields for specific assets and anything else whose value might change over some time. The table below shows the CAGR of the firms:

SHREECEM					CAGR
Mar'21	**Mar'20**	**Mar'19**	**Mar'18**	**mar'17**	
2376.62	2311.93	1570.18	951.05	1384.18	-0.88352
ULTRATECH					
Mar'21	**Mar'20**	**Mar'19**	**Mar'18**	**mar'17**	
7066.54	**5342.07**	**5455.54**	**2412.45**	**2231.28**	-0.93685

The CAGR of both companies is negative, which reflects the downward trends. But when we consider the Covid situation in the country, we concluded that the firms have maintained there self well in the revenue. It clearly shows their strength for future growth.

⇒ BETA

BETA	
ShreeCem	1.124174
UltraTech	0.458989

The BETA of both the companies is positive but a beta with greater than one is considered good which is of ShreeCem which indicates that the stock is more volatile than the broader market.

CONCLUSION:

The research paper analyzed the financial performance of Shree Cements and UltraTech Cement. The findings revealed that Shree Cements consistently outperformed UltraTech Cement in terms of various financial indicators, indicating better expense management, profitability, and resource utilization. Shree Cements demonstrated higher gross profit ratios, operating profit ratios, net profit ratios, return on equity, and return on assets compared to UltraTech Cement. These results highlight the importance of effective financial management and strategic decision-making in achieving superior financial performance. The implications of this research extend to investors, shareholders, and industry practitioners, emphasizing the need for robust financial practices and continuous performance evaluation. Further research is recommended to explore additional factors and gain a more comprehensive understanding of the drivers of financial performance.

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