GE-International Journal of Management Research
Vol. 4, Issue 4, April 2016 IF- 4.88 ISSN: (2321-1709)

Website: www.aarf.asia Email : editor@aarf.asia , editoraarf@gmail.com

COMPARATIVE ANALYSIS OF PROFITABILITY OF ULTRATECH AND AMBUJA CEMENTS

Dr. B. Madhusudhan Reddy

Professor in Finance

Department of Management Studies,

Guru Nanak Institute of Technology, Hyderabad, India

ABSTRACT

The purpose of the paper is to compare the overall profitability of Ultratech cements and Ambuja cements based on the performances of profitability ratios like gross profit margin, net profit margin, return of total assets, return on net equity & return on capital employed. Profitability is a measure of efficiency and control it indicates the efficiency or effectiveness with which the operations of the business are carried on. Profitability is the profit earning capacity which is a crucial factor contributing for the survival of the firms. Every firm aims to dig up maximum profits out of the invested capital pool. The success of the company usually depends on its returns earned. To evaluate the performance of the firms, comparative analysis is a most vital tool. In order to determine the financial position and performance in terms of operation results, comparative analysis and interpretation of various ratios are used in this research. Ratios play a key role in making managerial decisions. In this research, profitability ratios are particularly used to compare the profitability performance of the selected companies.

Key words: Profitability, Gross Profit Margin, Net Profit Margin, Return On Assets, Return On Capital Employed, Return On Equity, Earnings Per Share.

INTRODUCTION

The primary objective of the business undertaking is to earn profits. Profit earning is considered essential for the survival of the business. A business needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments. 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. Finance is lifeblood of every business and Profit is the soul of the business, without profit the business becomes lifeless. Profit has now become a measurement test to measure financial efficiency of the business firm. Generally profit is the net surplus of revenue over the expenditure. Profit is the ultimate output of a company and it will have no future, if it fails to make sufficient profits. Therefore the financial manager should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get reasonable return on their investment. This is possible only when the company earns enough profits.

REVIEW OF LITERATURE

A brief review of the literature in this field has been attempted in the following paragraphs.

Mohammed Rafiqul Islam (2000) studied the profitability of Fertilizer Industry in Bangladesh from 1985- 86 to 1994-95. The findings of the study indicated that none of the selected units were consistent and all the units were plagued with declining profits. The study concluded with suggestions for improvement of the profitability of fertilizer industry in Bangladesh.

Sudarsana Reddy (2003) studied the Financial Performance of Paper industry in AP. The main objectives set for the study are to evaluate the financing methods and practices to analyze the investment pattern and utilization of fixed assets, working capital condition, to review the profitability performance and to suggest measures to improve the profitability. The main findings of the study are that A.P. paper industry needs the introduction of additional funds along with restructuring of finances and modernization of technology for better operating performance.

T. Venkatesan and DR. S. K. Nagarajan (2012) in their study examined profitability analysis of selected steel companies in India during the period from 2005-06 to 2010-11. It is cleared from that profitability more or less depends upon the better utilization of resources, cutoff expenses and quality of management function in the products, customer services and to manpower and goodwill and market share. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investor"s return point of view.

Haslem (1968) used operating profit ratios to measure the effect of management, size, location and time on profitability and found that all variables significantly related to profitability.

Lazaridis and Tryfonidis (2006) investigated the relationship of corporate profitability and working capital management for firms listed at Athens Stock Exchange. They reported that there is statistically significant relationship between profitability measured by gross operating profit and the Cash Conversion Cycle. Furthermore, Managers can create profit by correctly handling the individual components of working capital to an optimal level.

Sanjay J.Bhayani (2006) studied the impact of assets utilization on profitability of Indian Industry. He has selected 641 Indian firms from 24 Indian Industries for the study. The study revealed that the fixed assets turnover and profitability has a positive relationship.

Luther (2007) conducted the liquidity, profitability and risk analysis of Madras Cement Ltd. He suggested in his study that firm should take into consideration the short term liquidity also along with long-term investment decisions as if the liquidity remains continuously, it can affect the profitability and in long run it can endanger the solvency of the firm especially during the time of financial distress.

Dr. S.K. khartik titto Varghese, (2011) they found the profitability more or less depends upon the better utilization of resources and to manpower. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investor"s return points of view.

OBJECTIVES OF THE STUDY

1. To analyse the profile of Ultratech and Ambuja cements.

2. To evaluate the profit margins in relation to sales.
3. To examine the profitability in relation to investment.
4. To compare the profitability position of the companies.
5. To suggest recommendations to manage the assets effectively.

RESEARCH METHODOLOGY

The present study is mostly based on the data collected from the secondary sources. Various reputed national and international journals, reputed books on finance and profitability, conference proceedings, magazines, M.phil, Ph.D., theses, Internet and daily news papers, etc., have been used for the purpose of conducting the research work. The present study is descriptive and analytical in nature. The study covers a period of five years from 2010-11 to 2014-2015.

ULTRATECH CEMENT COMPANY LTD. PROFILE

With an annual capacity of 63 million, UltraTech Cement is the largest cement company in India and amongst the leading producers of cement globally. UltraTech is also the largest manufacturer of white cement and ready mix concrete (RMC) in India. As a responsible contributor towards sustainable development, UltraTech Cement balances the growing demand for cement and its environmental implications by developing and championing sustainable solutions.

Products

As the largest cement company in India, UltraTech provides a range of products that cater to the needs of various aspects of construction, ranging from foundation to finish. This includes Ordinary Portland Cement, Portland Blast Furnace Slag Cement, Portland Pozzalana Cement, White Cement, Ready Mix Concrete, Building Products and a host of other building solutions. A consumer validated Superbrand, UltraTech offers premium quality products that are reliable, green and innovative, making it one of the top choices of every discerning engineer and customer.

Brands

Cement is sold under the brands 'UltraTech, UltraTech Premium and Birla Super.' White cement is manufactured under the brand name — 'Birla White', ready mix concretes under the name — 'UltraTech Concrete' and new age building products under the names — 'Xtralite, Fixoblock, Seal & Dry and Readiplast'. UltraTech Building Solutions is a retail format that caters to the end consumer providing a variety of primary construction materials under one roof.

Global operations

UltraTech Cement has 12 composite plants, one white cement plant, one wall care putty plant, one clinkerisation plant in the UAE, 16 grinding units (12 in India, two in the UAE and one each in Bahrain and Bangladesh) and six bulk terminals (five in India and one in Sri Lanka). UltraTech Cement is also India's largest exporter of cement and clinker reaching out to meet demand in countries around the Indian Ocean and the Middle East.

The company's subsidiaries are Dakshin Cements Limited, Harish Cements Limited, UltraTech Cement Lanka (Pvt) Ltd and UltraTech Cement Middle East Investments Limited.

AMBUJA CEMENT COMPANY LTD. PROFILE

Ambuja Cements Ltd, a part of the global conglomerate LafargeHolcim, is one of the leading cement companies in the Indian cement industry.

Operating for over 25 years, Ambuja has proved to be the best cement for construction and the best cement manufacturing company in India with its uniquely sustainable development projects. Its environment friendly initiatives have played a key role in India's efforts to become a green state. The sustainable constructions and renewable energy projects undertaken by it have a lion's share in creating a blueprint for sustainable development in India's bright future.

By virtue of its hassle-free customer support & home building solutions and its unique cement sustainability initiatives such as True Value and Water Positive, Ambuja's business has seen a rapid growth in the past decade. The company has a significant presence across western, eastern and northern markets of India as a brand for Ordinary Portland Cement (OPC) and Pozzolana Portland Cement (PPC).

Currently, Ambuja has a cement capacity of 28.75 million tonnes with five integrated cement manufacturing plants and eight cement grinding units across the country. It is the first Indian cement manufacturer to build a captive port with four terminals along the country's western coastline to facilitate timely, cost effective and environmentally cleaner shipments of bulk cement to its customers.

About LafargeHolcim

With a well-balanced presence in 90 countries and a focus on Cement, Aggregates and Concrete, LafargeHolcim (SIX Swiss Exchange, Euronext Paris: LHN) is the world leader in the building materials industry. The Group has 115,000 employees around the world and combined net sales of CHF 33 billion (EUR 27 billion) in 2014. LafargeHolcim is the industry benchmark in R&D and serves from the individual homebuilder to the largest and most complex project with the widest range of value-adding products, innovative services and comprehensive building solutions. With a commitment to drive sustainable solutions for better building and infrastructure and to contribute to a higher quality of life, the Group is best positioned to meet the challenges of increasing urbanization.

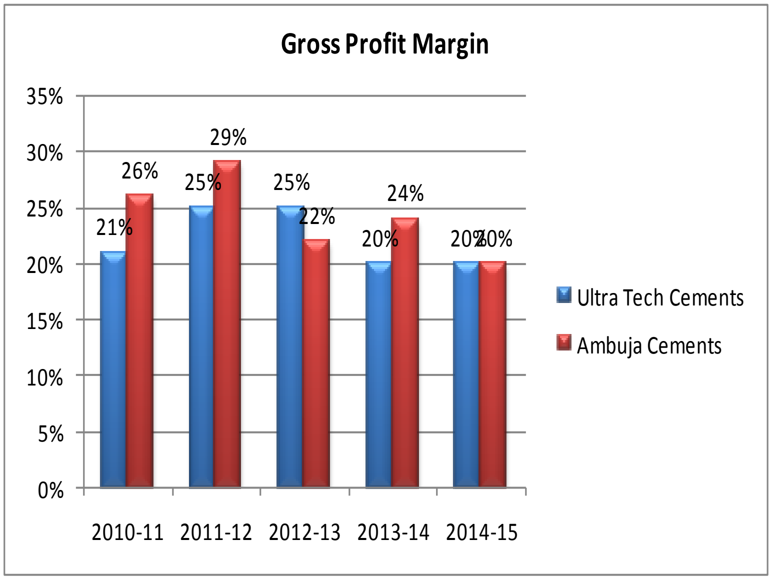
DATA ANALYSIS AND INTERPRETATION

1. **Gross Profit Margin (GPR):-** Gross Profit Margin indicates the relationship between gross profit and net sales. It measures the efficiency of the company's operations. Higher the ratio, the better it is. A low ration indicates unfavourable trend in the form of reduction in selling prices not accompanied by proportionate decrease in cost of goods sold or increase in cost of production. The gross profit margin can be calculated as:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Net Sales}} \text{ x } 100$$

Name of the company	2010-11	2011-12	2012-13	2013-14	2014-15
Ultratech Cements	21%	25%	25%	20%	20%
Ambuja Cements	26%	29%	22%	24%	20%

Source: Annual Reports



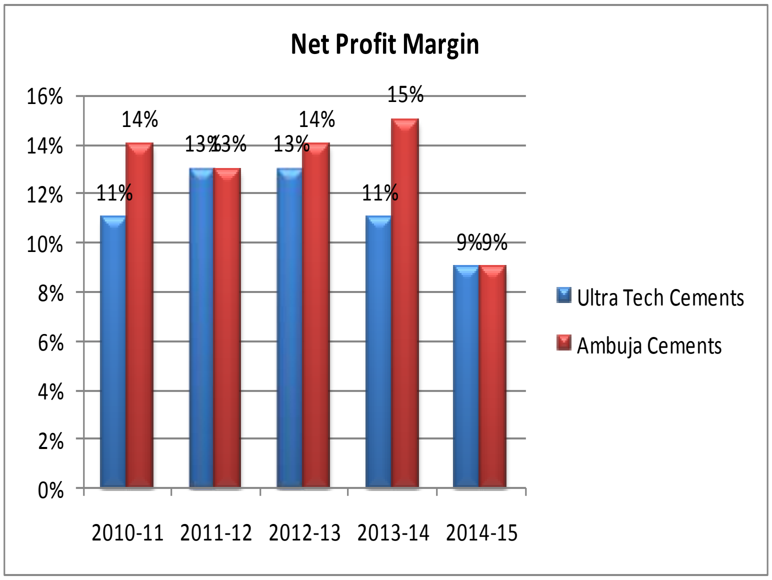
The able table presents the results of the gross profit ratios of Ultratech and Ambuja cement companies based on which comparative analysis is made. Both companies are maintaining a consistence gross profit margin. Ultratech and Ambuja cement companies are maintaining almost an average of 25% gross profit margin. It can be observed that Ambuja cement has more gross profit margin as compared to Ultratech cement Ltd which might happen due to effective control on the prime cost and increase in price of the goods sold. In 2014-15 financial year, both companies have same percentage of gross profit margin (20%). It can be understood that Ambuja cement company has more control on direct expenses than that of Ultratech cement Ltd.

2. **Net Profit Margin:** Net profit is also referred to as the bottom line. The excess of gross profit over the overhead expenses including interest is known as net profit margin or net profit.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Net Sales}} \text{ x } 100$$

Name of the company	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Ultratech Cements	11%	13%	13%	11%	9%
Ambuja Cements	14%	13%	14%	15%	9%

Source: Annual Reports



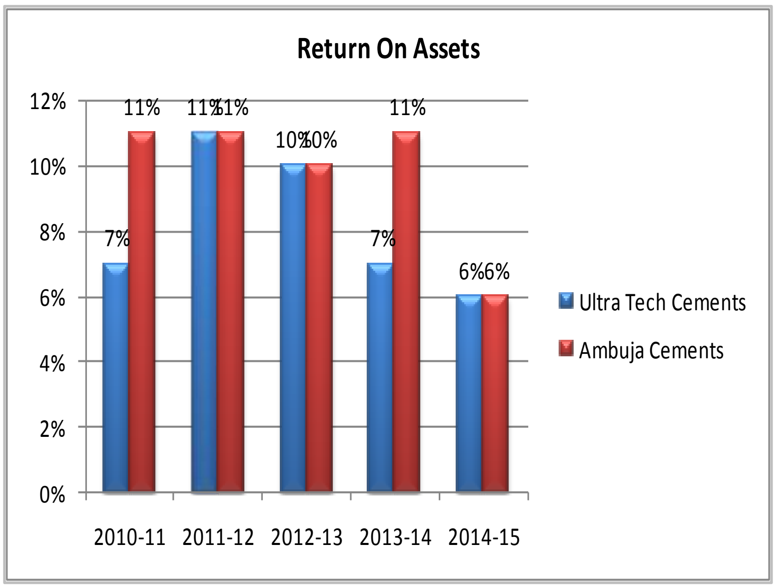
The net profit margin table evidences the negative trends of net profit rate particularly in case of Ultratech cement Ltd. during the study period . in 2014-15 financial year, both companies have experienced the same net profit margin. In case Ambuja cement Ltd, net profit in 2014-15 has decreased by almost 6% as compared to 2013-14. It might be happened due to high volume of administration and office expenses. But anyhow, as compared to Ultratech cement Ltd., Ambuja cement has suffered a lot in 2014-15. In a nutshell, it can be understood that the average net profit margin of Ambuja cements is higher than that of Ultra cement Ltd.

3. **Return On Assets (ROA):** Return on total assets which is also called as return on investment is a ratio that measures a company's earnings before interest and taxes (EBIT) against its total net assets. The ratio is considered an indicator of how effectively a company is using its assets to generate earnings. The higher the return on total assets ratio, the better it is for the firm and vice versa. This ratio measures the profits of the concern as a percentage of the total assets. This ratio can be calculated through the below equation.

$$\text{Return On Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \text{ x } 100$$

Name of the company	2010-11	2011-12	2012-13	2013-14	2014-15
Ultratech Cements	7%	11%	10%	7%	6%
Ambuja Cements	11%	11%	10%	11%	6%

Source: Annual Reports



Return on assets means return on total investment made in current assets as well as fixed assets. For Ambuja Cement Ltd, average ROA (10%) is more and has a constituent return on assets during the study period when compared to Ultra Cement Ltd. It can understood that Ambuja cement Ltd. is utilizing the assets more effectively and efficiently than Ultra cement Ltd. however, in the year 2014-15, both the companies used the assets with the same efficiency with ROA 6%.

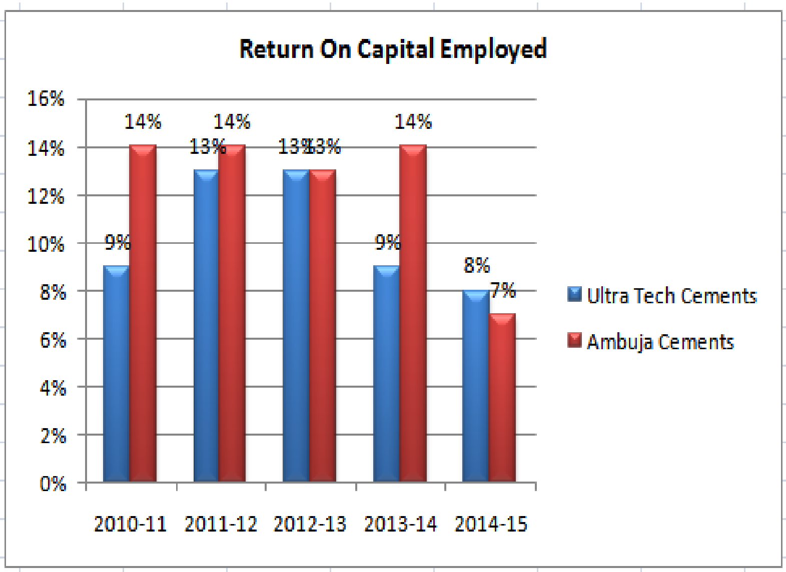
4. **Return On Capital Employed (ROCE)**: Return on capital employed is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed. Capital employed is the sum of shareholders' equity and debt liabilities; it can be simplified as (Total Assets – Current Liabilities). A higher ROCE indicates more efficient use of

capital. ROCE should be higher than the company's capital cost; otherwise it indicates that the company is not employing its capital effectively and is not generating shareholder value. Return on capital employed can be calculated as:

$$\text{Return On Capital Employed} = \frac{\text{Earnings Before Interest and Tax}}{\text{Capital Employed}} \text{ x } 100$$

Name of the company	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Ultratech Cements	9%	13%	13%	9%	8%
Ambuja Cements	14%	14%	13%	14%	7%

Source: Annual Reports



The ROCE that indicates the overall profitability of the company was almost constant in Ambuja Cement Ltd. during the study period. However, in 2014-15, its ROCE decreased by 50% as compared with last year percentage i.e., 14% in 2013-14. It can be observed that this company has underutilized the capital in 2014-15. ROCE is more constant in Ambuja cements Ltd. than

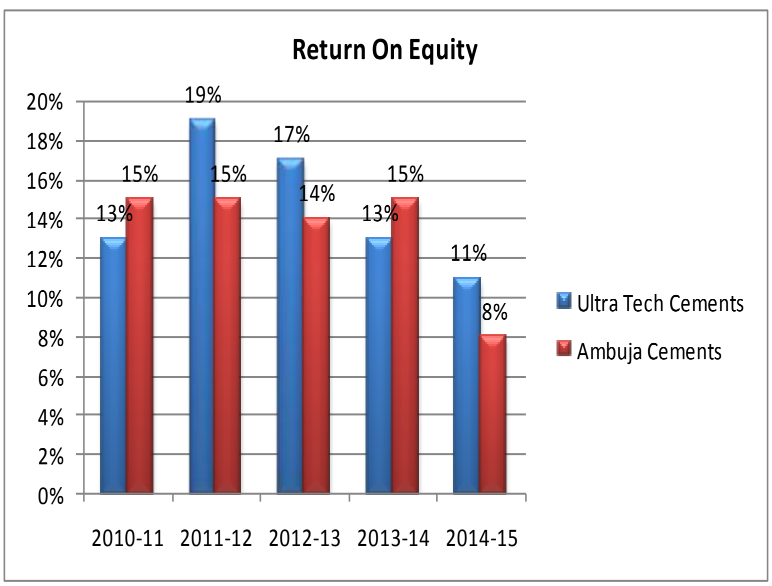
Ultratech cements Ltd. where more fluctuations took place during the study period. The average ROCE in Ambuja cements Ltd. (12%) is more than that of Ultratech cements Ltd. (10%).

5. **Return On Equity (ROE)**: Return On Equity is also called as return on net worth which refers to the amount of net income earned as a percentage of shareholders equity. Return on equity measures a company's profitability by revealing how much profit a company generates with the money that shareholders have invested. ROE is expressed as a percentage and calculated as the following.

$$\text{Return On Equity} = \frac{\text{Earnings Ater Inerest and Tax}}{\text{Net Worth}} \text{ x } 100$$

Name of the company	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Ultratech Cements	13%	19%	17%	13%	11%
Ambuja Cements	15%	15%	14%	15%	8%

Source: Annual Reports



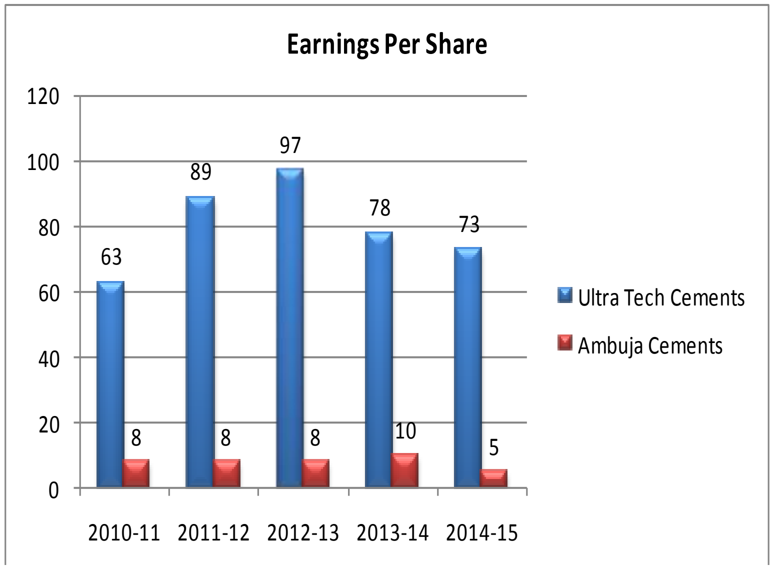
6. Ambuja cements Ltd. is giving more constant returns to its share shareholders during the study period except in 2014-15 in which almost 50% less than 2013-14. It might have happened due to decrease in net profit. Ultratech has been giving more returns to the shareholders during the study period. The average return on equity of Ultratech cements Ltd.(15%) is more than that of Ambuja cements Ltd. (13%).
7. **Earnings Per Share (EPS)**: Earnings Per Share is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. It is often considered to be one of the most important variables in determining a stock's value. EPS is calculated as the following.

$$\text{Earnings Per Share} = \frac{\text{Earnings Ater Tax} - \text{Preference Dividend}}{\text{Total Outstading Equity Shares}}$$

(In Rs.)

Name of the company	2010-11	2011-12	2012-13	2013-14	2014-15
Ultratech Cements	63	89	97	78	73
Ambuja Cements	8	8	8	10	5

Source: Annual Reports



In case of Ultratech cement Ltd., earnings per share (Rs.63 in 2010-11, Rs. 89 in 2011-12, Rs. 97 in 2012-13, Rs. 78 2013-14 and Rs. 73 in 2014-15) is more high as compared with EPS of Ambuja cements Ltd whose EPS is very consistent.

SUGGESTIONS AND RECOMMENDATIONS

1. Both companies have to concentrate on reducing the prime cost to enhance the gross profit margin.
2. In order to increase net profit margin, the selected companies are supposed to keep more vigilance on minimizing the office, administration and selling expenses so that it leads to wealth maximization of the shareholders.
3. In both companies, total assets have to be utilized efficiently. Particularly in 2014-15, it is not good for both companies.
4. Return on the capital employed shows the positive trend of profitability of the companies. So the companies have to employ capital in effective manner.
5. Return on equity shows how the shareholders are satisfied with their investments in the company. Hence, the companies are to increase their return on equity and earnings per share.

CONCLUSION

From the analysis made in this paper, it is concluded that the gross profit margin and net profit margin of both companies is almost constant during the study period. However, in 2014-15, both margins in both companies decreased as compared to their previous year's results that might have happened as a consequent of increase in expenses or ineffective control of costs or reduction in sale price etc. When it comes to returns on assets, there was somewhat fluctuations and it declined to 6% in both the companies in 2014-15. This might have happened owing ineffective utilization of assets. There has been constant trend in ROE & ROCE till 2013-14 but thereafter, in 2014-15, there was a decline in the ROE & ROCE. In case of EPS, Ambuja cement Ltd evidences that it has acquired less EPS as compared to Ultratech cements Ltd.

REFERENCES

1. Haslem, J.A. (1968), " A statistical analysis of the relative profitability of commercial banks". Journal of Finance, 23(1), pp. 167-176.
2. Lazaridis, I. & Tryfonidis, D. (2006). Relationship between Working Capital Management and Profitability of Listed Companies in the Athens Stock Exchange. *Journal of Financial Management and Analysis*. 19 (1), 26 – 35.
3. Luther, C.T (2007) Liquidity, risk and profitability analysis: a case study of Madras Cements Ltd., Management Accountant.
4. Sanjay, J.Bhayani (2006), Assets Turnover and Profitability, Indian Journal of Accounting, Vol. xxxvi(2), pp. 1-7.
5. Sudarsana Reddy, G. (2003). Financial Performance of Paper industry in A.P, Finance India, Vol. XVII, No. 3, pp. 1027-1033.
6. Venkatesan, T. and dr. S. K. Nagarajan (2012), An Empirical study of Profitability Analysis of Selected Steel companies in India, *International Journal of Marketing, Financial Services & Management Research.* Vol.1 issue 10, october 2012, issn 2277 3622
7. www.moneycontrol.com
8. www.ambujacement.com
9. www.ultratechcement.com
10. www.google.com