International Journal of Advance and Applied Research
www.ijaar.co.in
ISSN – 2347-7075 Impact Factor – 7.328
Peer Reviewed Bi-Monthly
Vol.9 No.5 May – June 2022

A STUDY ON FINANCIAL RATIOS ANALYSIS OF CEMENT INDUSTRY WITH SPECIAL REFERENCE TO AMBUJA CEMENT

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Abstract:

Cement Industry is a huge and very substantial industry in Indian economy. It enables the basic infrastructure facility to Indian economy. Cement industry is the second largest industry during the course of the Globe only after China. The profit growth rate of cement companies have been seen 85 per cent. The contribution of Indian cement industry in economic development is 8 per cent. This present study is about to estimate the financial performance of Cement Industry of India with special reference to Ambuja Cement. The financial performance will have been estimated through the financial ratios. Company's liquidity position will be tested through short term solvency ratios while company's earnings performance have been checked 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. The primary objective is to work on the financial performance of the Ambuja Cement. The secondary objectives are to evaluate the profitability, liquidity and the operational position of the company. From this study it was observed that financial position of Ambuja cement is strong during its study period.

Introduction:

The cement industry is one of the oldest established manufacturing industries in the Indian economy. In which the required raw material, skilled craftsmen, advanced technology and machinery are well connected and easily available in country. Thus cement industry is both-fundamental and consumer oriented.

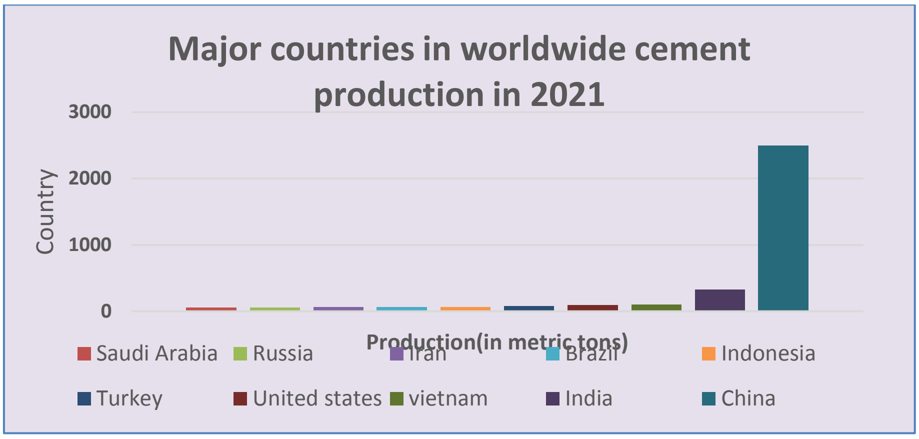
The cement industry is not only important as a large-scale constitutional industry, but also the fourth largest ten in the world. So that its position is high even for that. It creates an important segment in the modern Indian industrial economy. The industry has played a major role in the Indian economy. Some factors have played an important role in the utility of this industry in the modern Indian economy. At the forefront of this is the need and cost of cement.

The industry produces goods that are very useful for companies, factories, high-rise buildings, household use and construction of dams, roads, pools as well as residential buildings. The Government of India wants to expand the capacity of railways and the facilities for handling and storage to ease the transportation of cement and reduce transportation cost.

These formative steps would lead to an increased construction activity, which would result in boosting cement demand. Cement production of India in February-2021 increased by 7.8% as compared to production of February-2020. Overall Cement production in India for the year 2021 was 294.4 million tonnes.

The expecting demand for the cement in India will rise by 550-600 million tonne per annum (MTPA) by 2025 because of increasing demand in various sector like housing, industrial construction, commercial construction, increasing length of road transportation, modernisation etc. As per Union Budget 2019-20, the Government is expected to upgrade 1, 25,000 km of road length over the next five years, which would also lead towards high rise in the demand for cement. (ibef. org)

Figure: 1



Source:CMIE

Need Of The Study:

Financial statement analysis is used to classify the trends and relationships between items of financial statement. All type of stake-holders (such as analysts, creditors, employees, and investors) of the financial statements need to evaluate a company's profitability, liquidity, and solvency. The most commonly used methods for financial statement analysis are common- size statements, ratio analysis. trend analysis, These methods contain calculations, measurement and comparisons of the results from the historical company data, competitors, or industry averages to determine the relative strength and performance of the company being analysed.

Objectives of the Study

Primary Objective:

- To study the financial ratio analysis of cement industry with reference to Ambuja Cement

Secondary Objectives:

- To analyse the profitability, liquidity and operational position of the industry.
- To examine the financial structure of the company.

Research Methodology

Research design is a part of research methodology which is the conceptual frame work and within research in conducted. It creates the blueprint for the collection, calculation analysis, and interpretation of data. The study is conducted to measure a financial efficiency of cement industry of India. Effective use of resources is very essential to increase the profitability and liquidity of business entity. The research applied in the study is Analytical Research Design and ratio analysis. Analytical study is a system statistical of tools and techniques of analysis applied to numerical data. The period of five years from Dec-2016 to Dec-2020 is taken for study. This duration of 5 years can be measured sufficiently enough to originate the analysis and fruitful results. Ratio analysis (1. Liquidity ratio 2. Profitability ratio 3. Solvency ratio) has been used as an accounting tool.

Sources of Data: Only secondary data are used for analysing the financial position of Ambuja Cement. The data of Ambuja Cement has been collected from the annual reports and balance sheet given by the company. The data has been stated from the website and books.

Analysis and Discussion

1. **Current Ratio:** The current ratio helps to know the company's ability to pay its current liabilities from its current assets. This ratio is used to rapidly measure the liquidity of a company.

Ratio	Formula	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Current Ratio	Current Assets ÷ current liabilities	1.23	1.34	1.54	1.54	0.98

Interpretation: From the above table, it is understood that the current ratio of the company ranges minimum of 0.98 during the year Dec-2020 and maximum of 1.57 during the year Dec-2018 and 2019. The ideal norm is 2:1 of current ratio which means that company’s ability to pay its dues is low. It also depicts more consistency level.

2. Quick Ratio: The quick ratio measures a company’s ability to meet its short-term obligations with its most liquid assets.

Ratio	Formula	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Quick Ratio	Current Assets - inventory ÷ current liabilities	0.95	1.08	1.20	1.33	0.81

Interpretation: The above table shows that the quick ratio of the Ambuja cement ranges minimum of 0.81 during the year Dec-2020 and maximum of 1.33 during the year Dec-2019.The ideal norms of quick ratio is 1:1 which means that company's ability to pay its dues is good in the year Dec-2017, 2018 and 2019. It also depicts more consistency level.

3. Inventory Turnover Ratio: Inventory turnover is a ratio of measuring that how many times a company's inventory is sold from its available stock and replaced over a period of time. The number of days in the period can be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand.

Ratio	Formula	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Inventory turn-over Ratio	Cost of Goods sold ÷ Average Inventory	9.81	9.94	8.89	12.23	15.23

Interpretation: The above table shows that the inventory turnover ratio of the company ranges from maximum of 15.23 times during the year Dec-2020 and minimum of 8.89 times during the year Dec-2018. It reflects that the company is in a consistency level.

4. Cash to Current Assets ratio: Cash to Current Assets ratio shows the level of cash in the total assets. This is a liquidity ratio that estimate the how much current assets in a company made up of cash and cash equivalents.

Ratio	Formula	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Cash to Current Assets Ratio	(Cash and Cash Equivalents ÷ total Current assets)*100	61.19%	63.47%	58.01%	68.62%	66.00%

Interpretation: The above table shows that Cash to Current Assets ratio of the company ranges from maximum of 68.47% during the year Dec-2019 and minimum of 58.01% during the year Dec-2018. It reflects that the company's current assets is made up more than 50% of cash. It is in good consistency level.

5. Current assets to total assets ratio: Currents assets to total assets ratio indicates the proportion of current assets in total current assets of company

Ratio	Formula	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Current assets to Total Assets Ratio	(Current Assets ÷ total assets)*100	18.04%	22.37%	22.79%	25.37%	17.39%

Interpretation: The above table shows that Current Assets to Total assets ratio of the company ranges from maximum of 25.37% during the year Dec-2019 and minimum of 17.39% during the year Dec-2020. It reflects that the company maintains its current assets more than 15% of its total assets. It is in good proportion level of current assets.

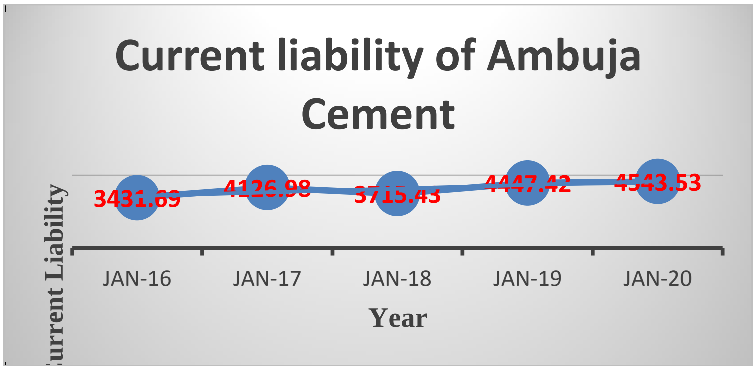
6. Current liabilities to total liability ratio: Current liabilities to total liability ratio indicates the proportion of total liabilities that are payable in nearer period of time.

Ratio	Formula	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Current liability to Total liability Ratio	(Current liability ÷ total liability)*100	14.70%	16.76%	14.75%	16.48%	17.83%

Interpretation: The above table shows that Current liabilities to total liabilities ratio of the company ranges from maximum of 17.83% during the year Dec-2020 and minimum of 14.70% during the year Dec-2016. It reflects that the company keeps its current liabilities between 14% to 18% in total liabilities. It is a consistency level of current liabilities.

Current Liability: Current liabilities that type of debt and borrowed amount are due within one year i.e. in the 12 month. It include short term debt, bills payable, accrued liabilities and other debts.

Data	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Current Liability(In crore)	3431.69	4126.98	3715.43	4447.42	4543.53

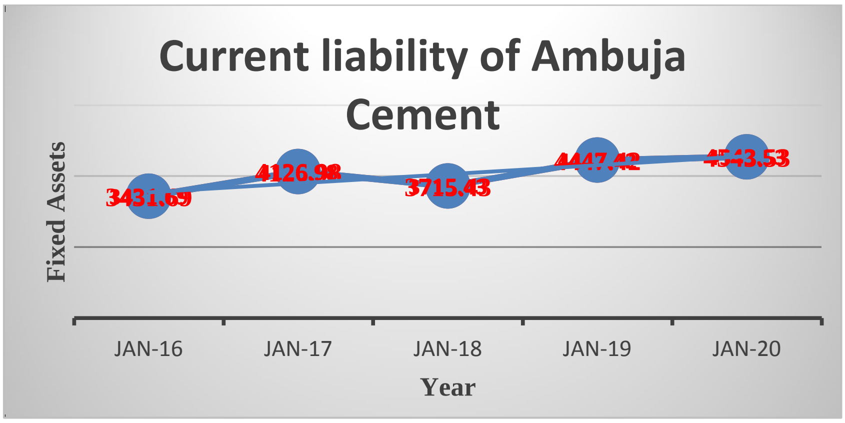


Interpretation: There is an increase in current liability in the year ended Dec-2020 in comparison of Dec-2016. So, this is not a good sign for the Ambuja Cement.

Fixed Asset: Fixed asset is also long term tangible assets. Company owns and uses in the production process and generating in its income. It isn't easily converted into cash and cash equivalents.

Data	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020
Fixed assets (In crore)	3431.69	4126.98	3715.43	4447.42	4543.53

Interpretation: fixed assets of the Ambuja cement is increased during the last five years, but it is comparatively high than the increase in current asset.



Findings:

1. The ideal current ratio is 2:1. During the study period current ratio of the company is nearer to Ideal ratio except the year Dec-2020
2. Quick ratio of the company is satisfactory as it is up to the standard norm 1:1 in the year Dec-2017, 2018 and 2019. The firm has the ability to meet its current liability. Quick ratio is below to standard norm in the year Dec-2020. But it is satisfactory.
3. The inventory turnover ratio is much satisfactory.
4. Cash to Current Assets ratio is also good during the study period.
5. Currents assets to total assets ratio is also satisfactory. Company maintain its current assets on sufficient level.
6. Current liabilities to total liability is not much satisfactory because proportion of current liabilities in total liabilities is comparatively high.

Suggestion:

The financial performance of Ambuja cement, during the study period of 5 year is satisfactory, with the available data. It is able to give judgement with respect to the company's performance from the researcher's point of view.

- The current asset and fixed asset may be employed to maximum level.

- The company may try to sustain good cash proportion in its total current assets.
- From the analysis it has been cleared that the short term solvency position of the company is satisfactory during the period under study.

Conclusion:

The liquidity position of the Ambuja cement is suitable hence, the company is able to pay its short –term dues easily. The solvency ratios shows that the firm is also good in solvency because there may not be a problem in satisfying their long-term liabilities. The company can recover its profitability by cost reduction, modernization of the production and maximum uses of available resources. Over all the Ambuja cement's performance is efficient. The firm should consolidate to become strong, vibrant and also, Company should concentrate on foreign market moreover maintaining a good supply chain management (SCM) strategy.

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