International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 12 Issue 8, August, 2023, Impact Factor: 7.751

A Comparative Study on Profitability and Liquidity of Selected Cement Companies in India

Dr. Kanubhai Jeshingbhai Chaudhary

Assistant Professor, Department of Commerce, Matrushree Maniba Commerce College, Kushki – Idar, Sabarkantha, Gujarat

ABSTRACT

Liquidity and profitability are the most important tools for knowing the financial health of the company. In this study, an attempt is made to compare the profitability and liquidity of two cement companies namely Ultra Tech and Shree Cement Ltd. The study examined the financial performance of each company by considering the measures of profitability and liquidity. The profitability variables include Return of Shareholders funds, Net profit margin, and for liquidity the current ratio and quick ratio were calculated. The results revealed that Ultra Tech cement continuously demonstrated stronger profitability, with superior ROSF and NPM ratio as compared to Shree Cement Ltd. Ass per ANOVA analysis, there are substantial differences in liquidity ratios between the two companies with Ultra Tech exhibiting stringer short-term liquidity through higher CR and QR values. It was also revealed that the Return of Shareholders funds significantly fluctuate between both companies but there is an insignificant difference in the case of NPM.

Keywords: Profitability, Liquidity, CR, QR, NPM, ROSF, Cement

INTRODUCTION

India's cement industry is a sizable sector that is essential to the nation's infrastructure growth. India is the world's second-largest cement producer after China. Approximately 20 businesses dominate the sector and produce close to 70% of all cement produced in India. There are 210 cement factories in the entire nation. In the upcoming years, strong demand is anticipated for cement in India. The need for rural homes and the government's emphasis on infrastructure development are factors contributing to the increase. In FY22, cement production in India is projected to increase by approximately 12% year-on-year. The Indian cement industry is likely to add around 80 million tonnes (MT) of capacity by FY24, which is the highest.

Future cement consumption is anticipated to increase with the introduction of Prime Minister Narendra Modi's "PM Gati Shakti-National Master Plan (NMP)" for multimodal connectivity. Cement manufacturers in India are recognized for their dedication to sustainability. They use cutting-edge technologies and industry best practices, making them one of the greatest cement producers in the world. Overall, India's cement market is expanding significantly and offers both domestic and foreign firms enticing chances.

LITERATURE REVIEW

Balaji, C., & Kumar,G. P.(2016) conducted a study with the objective of assessing and contrasting the overall performance of a few Indian banks from the public and private sectors. The analysis was based on secondary data that was gathered from the Reserve Bank of India website, annual reports of relevant banks, and other sources. The span of time five-year period, from 2011-2012 to 2015-16. Ten banks, five from the public sector were chosen using a quota sampling method, with the highest market capitalization generated by banks during 2015-16. And t-test was used for this study. The study revealed that the period served as the criterion. The study revealed that both bank's profitability increased.

Patjoshi, P. K., & Nandini, G. (2019) made a comparative study on the financial performance of HUL and Nestle India. Of two significant forms that produce non-durable consumer goods. Data from many websites used and financial performance over ten years from 2009-10 to 2018-19 were found. Since there is fierce rivalry within the same industry. The examination replicates the financial situation as well as the profitability of the corporate sector.

Since everyone has access to full information about financial performance and position managers, investors and creditors can adopt various financial strategies by analysing tactical thinking in relation to investment decisions.

Patel, R. (2018) did research on pre- and post-merger financial performance for a subset of Indian banks from 2003-2004 to 2013-14. Several factors were taken into consideration while evaluating performance. The study found a negative impact of the merger on Return of Shareholders funds, return on assets, net profit ratio, return on advance, and return on investment. However, the variables, namely Earning per share, profit per employee, and business per employee have shown positive trends and growth after the merger. It has been observed that after the merger the assets, equity, investment, and advances of all banks increase, but due to underutilization, their respective return decreases. On the contrary, the business per employee and profit per employee increased.

Bharatg, K. A. (2017) madea comparative study on the growth and financial performance of Jet Airways, Indigo Airlines &SpiceJet airlines companies. A comparison of financial performance is based on the growth, challenges, and service quality of the company. After LPG regulation, the Indian government has taken the free sky policy to compete with international airlines. The study focused on the major three airlines' growth and challenges. The study was based on ratio analysis and ANOVA for testing of hypothesis. Finally, the study helped to find overall better performers of an airline company in India with respect to growth and financial performance.

OBJECTIVE OF THE STUDY

The main purpose of this study is to analyze and compare the profitability and liquidity of selected cement companies.

HYPOTHESES

H_{00}: There is no significant difference in the Return of Shareholders funds of selected companies in India
H_{01}: There is no significant difference in the Net Profit Margin of selected companies in India
H_{02}: There is no significant difference in the Current Ratio of selected companies in India
H_{03}: There is no significant difference in the Quick Ratio of selected companies in India

RESEARCH METHODOLOGY

A crucial factor in determining any company's performance is its level of profitability and liquidity. The factors of the financial success of various organizations have been the subject of many expert opinions. The profitability and liquidity of the chosen firms are compared in this study. The study solely examines a quantitative strategy and is descriptive in nature. The approach of purposive sampling has been applied. The study was carried out for the two top cement companies that were chosen. This analysis focuses on Ultra Tech Cement and Shree Cement Ltd.'s profitability and liquidity from 2012–2013 through 2021–2022. This study's sole weakness is that it only looked at two firms over a ten-year period.

DATA ANALYSIS & INTERPRETATION

The data analysis includes computations of ratios, graphical representation, and ANOVA tables for both profitability and liquidity. Profitability refers to the company’s ability to generate profit in relation to various financial data such as sales, assets, equity, net worth, etc. It indicates the efficiency and effectiveness of the company’s operations in generating earnings. Liquidity refers company’s ability to meet short-term financial obligations, while profitability measures the company’s ability to generate earnings from operations.

Table 1: Ratios of Profitability and Liquidity

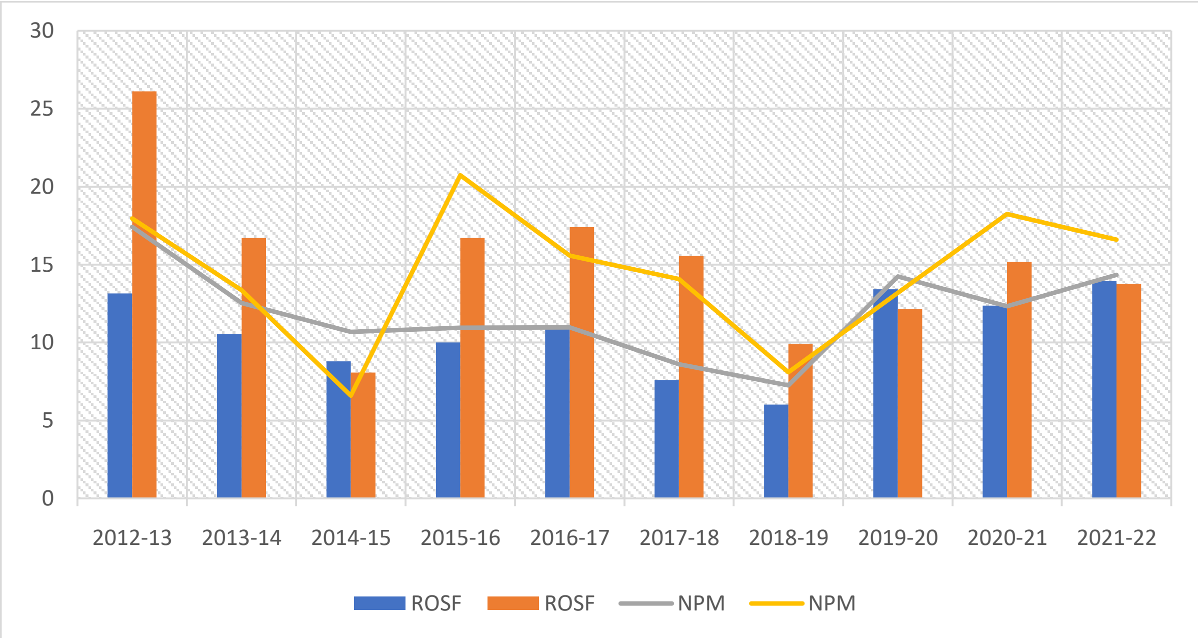
Variable	ROSF		NPM		CR		QR	
Year	Ultra Tech	Shree Cement	Ultra Tech	Shree Cement	Ultra Tech	Shree Cement	Ultra Tech	Shree Cement
2012-13	13.16	26.12	17.43	17.96	0.99	2.75	0.78	1.82
2013-14	10.57	16.71	12.54	13.37	1.05	2.15	0.79	1.07
2014-15	8.79	8.08	10.68	6.61	0.88	2.22	0.68	1.23
2015-16	10.00	16.70	10.96	20.73	1.29	2.13	1.04	1.12
2016-17	11.00	17.40	10.98	15.58	1.17	2.16	0.96	1.08
2017-18	7.60	15.56	8.61	14.09	0.86	1.91	0.64	1.03
2018-19	6.03	9.91	7.25	8.11	1.12	2.64	0.88	1.58
2019-20	13.42	12.14	14.25	13.19	1.03	1.62	0.85	1.00

2020-21	12.37	15.16	12.32	18.25	0.95	0.99	0.77	0.56
2021-22	13.95	13.76	14.34	16.61	0.98	1.11	0.79	0.54

Sources: From author's computation

From the above table the financial performance (Liquidity and profitability) of UltraTech Ltd. and Shree Cement Ltd. From the fiscal year 2012-13 to 2021-22 are included. These indicators provide information on several key ratios of the financial health of companies. The ROSF gauges how well a business makes money from shareholders' equity. The ROSF of Shree Cement Ltd. Ranged from approximately 8% to 26.12% showing a wider range of profitability compared to Ultra Tech. The NPM of Ultra Tech ranged from 8.08% to 15.16%, while Shree Cement's NPM ranged from 8.11% to 20.73%. The Current Ratio of Ultra Tech ranged from around 0.86 to 1.17, indicating a relatively stable ability to meet short-term obligations. Shree Cement's Current ratio ranges from 1.91 to 2.75, reflecting a stronger ability to cover short-term obligations. Ultra Tech's Quick ratio ranged from 0.77 to 1.04, indicating a relatively stable short-term liquidity position. While the quick ratio of my Shree cement ranged from 0.54 to 1.82, suggesting a wider range of short-term liquidity.

Graph-1 ROSF& NPM of UltraTech & Shree Cement Ltd.



Source: From the author's computation

From the above graph of comparison to Shree Cement, Ultra Tech has consistently demonstrated better financial results in terms of profitability (ROSF, NPM) and Liquidity (CR, QR). To construct a thorough evaluation of the firms' financial conditions, a comprehensive study would take into account industry standard's competitive variables, and extra financial measures. Overall, the interpretation highlights the financial performance and stability of both companies.

Table – 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
ROSF	20	6.031	26.120	12.92089	4.477721	20.050
NPM	20	6.606	20.733	13.19276	3.884700	15.091
CR	20	.864	2.745	1.50046	.631104	.398
QR	20	.540	1.818	.96115	.318033	.101
Valid N (list wise)	20					

Sources: From the Author's computation

The above descriptive Statistics shows the Return of Shareholders' funds, net profit margin, current ratio, and quick ratio which were developed from a dataset of 20 observations, and have descriptive statistics that provide important insights. With an average of 12.92 % and a Standard deviation of 4.48%, ROSF ranges from 6.031 % to 26.12%. Net profit margin has a mean of 13.19% and a standard deviation of 3.88%. The range of CR is 0.864 to 2.745, with a mean of 1.50, while the range of QR is 0.540 to 1.818, with a mean of 0.96. These statistics provide a thorough knowledge of the financial performance features of the dataset by highlighting the central tendency and dispersion of the measures.

Table –3 ANOVA of Profitability Ratios

		Sum of Squares	df	Mean Square	F	Sig.
ROSF	Between Groups	99.662	1	99.662	6.377	.021
	Within Groups	281.288	18	15.627		
	Total	380.950	19			
NPM	Between Groups	31.630	1	31.630	2.232	.153
	Within Groups	255.097	18	14.172		
	Total	286.727	19			

Source: From the author's computation

The above table shows ANOVA results for the profitability ratios, Return of Shareholders funds, and net profit margin, providing information about group differences. A calculated F-statistics of 6.377 and p-value of 0.21 show that there is a statistically significant difference between the groups in the case of ROSF. This implies that both companies have different ROSFs. The computed F-statistics for NPM, however, is 2.232 and has a p-value of 0.153, which is insufficient to reject the bull hypothesis. Thai suggests that observed NPM variations between groups may not be statistically significant. Collectively, these finding shows that there is no significant difference regarding the profitability of both companies.

Table -4 ANOVA of liquidity Ratios

		Sum of Squares	df	Mean Square	F	Sig.
CR	Between Groups	4.381	1	4.381	24.754	.000
	Within Groups	3.186	18	.177		
	Total	7.568	19			
QR	Between Groups	.406	1	.406	4.825	.041
	Within Groups	1.516	18	.084		
	Total	1.922	19			

Sources: From the author's computation

The above table shows the ANOVA table of liquidity ratio current ratio and Quick ratio), the notable insight regarding the distinctions between Ultra Tech and Shree cement in the ANOVA results revealed from the above table. The analysis shows the highly significant difference between the two companies' liquidity. For the current ratio, the F-statistics is 24.754 and the p-value is 0.000. This implies that Ultra Tech and Shree Cement Ltd. Current ratio values are significantly different from one another. Similarly, for the Quick Ratio, there is a difference between the group for QR, with a computed F-statistics 4.825 and p-value of 0.041.

FINDINGS

As a result, there are sizable and statistically significant differences between Ultra Tech and Shree cement based on the ANOVA analysis of their liquidity ratio, having low p-values. It replicates that the Quick ratio and Liquid ratio of both Ultra Tech and Shree cement are considerably different from one another.

The profitability and liquidity reveala thorough examination of both the company's liquidity and profitability over a year data period. This shows both companies have different profitability as per the net profit ratio. There are substantial disparities between the two companies. As per liquidity analysis, Ultra Tech might have met its immediate financial commitment successfully. Collectively, this result indicates that when comparing Shree cement to Ultra Tech the high performance in terms of profitability and liquidity can be found over the study period. According to these results, Ultra Tech and Shree Cement manage their short-term liquidity and capacity to satisfy urgent financial obligations in noticeably different ways. Additional research into the cause of the variations may yield insight information about the financial plans and operation procedures of the two companies.

REFERENCES

Research papers:

[1]. Balaji, C., & Kumar, G. P. (2016). A comparative study on financial performance of selected public & private sector banks in India. *Journal of Commerce and Trade*, 11(2), 89-96.

[2]. Bharath, K. A. (2017). COMPARATIVE STUDY ON GROWTH AND FINANCIAL PERFORMANCE OF JET AIRWAYS, INDIGO AIRLINES & SPICEJET AIRLINES COMPANIES IN INDIA. *ISBR Management Journal*, 2.

[3]. Karri, H., Meghani, K., & Mishra, B. (2015). A comparative study on financial performance of public sector banks in India: An analysis on CAMEL model.

[4]. Patel, R. (2018). Pre & post-merger financial performance: An Indian perspective. *Journal of Central Banking Theory and Practice*, 7(3), 181-200.

[5]. Patjoshi, P. K., & Nandini, G. (2019). Comparative study on financial performance of Hindustan Unilever and Nestle India. *Journal of Xidian University,* 14(4), 3075-3080.

Web links:

[1]. https://www.ibef.org/industry/cement-india

[2]. https://www.ibef.org/industry/cement-presentation

[3]. https://beeindia.gov.in/en/cement

[4]. https://www.argusmedia.com/en/news/2442180-indias-cement-makers-announce-capacity

[5]. https://www.cmaindia.org

[6]. https://business.mapsofindia.com/cement/