



A Study on Financial Performance analysis of selected Cement Industry

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Abstract

Finance is a term for matters regarding the management, creation, and study of money and investments. It involves the use of credit and debt, securities, and investment to finance current projects using future income flows. Because of this temporal aspect, finance is closely linked to the time value of money, interest rates, and other related topics. Organizations invest an enormous amount of money in order to keep their business running and fully functional. Undoubtedly, finance is one of the most important aspects of a business. With huge funds, daily cash flow and continuous transaction, managing and monitoring all of the above turn necessary. The objective of the study is to study the financial performance analysis of cement industry. The data used are of last five years from 2016-20. Ratio analysis tool has been used, one of the uses of ratio analysis is to compare a company's financial performance to similar firms in the industry to understand the company's position in the market. The cement industry is one of the core industries in the shares and securities of Ramco cements and ultra tech cements companies seems to be profitable. Also finds out the various ratio ratio such as Earning per share, operating margin, net profit margin, gross profit margin, dividend pay-out ratio, inventory turnover ratio, return on investment and debt equity ratio return on shareholders, related with investors and management, which make the business comparable to the peer companies of the industry.

Key words: Indian Cement Industry, Financial Performance

Introduction

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of „analysis“ is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other. Information about financial performance of an enterprise during the financial period is primarily provided in an income statement or profit and loss account. This shows income, expenditure and finally net profit.

Statement of the Problem

Analysing financial performance is the process of evaluating the common parts of financial statements to obtain a better understanding of companies position and performance. Financial performance analysis enables the investors and creditors to evaluate past and current performance and financial position, and to predict the future performance. It is the process of identifying the financial strength and weakness of the available accounting data and financial statement. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account. The task of financial analyst is to determine the information relevant to the decision under consideration from the total information contained in the financial statement. The second step is to arrange information in a way to highlight significant relationship. The final step is interpretation and drawing of inference and conclusion. Thus financial analysis is the process of selection relating and the evaluation of the accounting data.

Objectives of the Study:

- To study the financial performance analysis of cement industry
- To analyse the profitability position of the cement industry in India
- To analyse the liquidity position of cement industry in India
- To analyse the solvency position of cement industry in India

FINANCIAL STATEMENT

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. Financial statements are written records that convey the business activities and the financial performance of a company. The balance sheet provides an overview of assets, liabilities, and stockholders' equity as a snapshot in time. The income statement primarily focuses on a company's revenues and expenses during a particular period. Once expenses are subtracted from revenues, the statement produces a company's profit figure called net income. The cash flow statement (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments. The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential. The three major financial statement reports are the balance sheet, income statement, and statement of cash flows.

Research Methodology

Research is a process of systematic inquiry that entails collection of data; documentation of critical information; and analysis and interpretation of that data or information, in accordance with suitable methodologies set by specific professional fields and academic disciplines. The data required for the study has been collected from secondary source. The relevant information was taken from annual reports, journals and internet.

Research Design

The present study is deal with Quantitative Research. Quantitative research is the process of collecting and analysing numerical data. It can be used to find patterns and averages, make predictions, test casual relationships, and generalize results to wider populations.

SIZE OF SAMPLES

Three Cement Industries

1. Ultra Tech Cement Ltd
2. The Ramco Cements Ltd
3. India Cement Ltd

TOOLS FOR ANALYSIS

- Ratio Analysis
- Balance Sheet
- Income statement

Scope of the Study

Study aims to analyse the liquidity, profitability, solvency position of the company and efficiency which it converts its resources into service. The study aims to find out the ratios between the services and net profit of the company. Liquidity ratio like current ratio, quick ratio etc are prepared to analyse the financial performance of the company. Profitability of the company is found out using ratios like gross profit ratio, net profit ratio etc.

The analysis of financial statements helped to judge the financial strength of the company. This study further gives valuable suggestions to the union to increase its performance by making a comparison with a company in the same industry. The study will help the company to know whether the performance creates value there by looking for the opportunities to increase the investment.

TIME PERIOD

The present study was made for a period of 5 accounting years from 2016 to 2020.

Limitation of the Study

Although the research is useful to industry and academics, it is not free from certain limitations. Some limitations are as follows;

- The reliability of the data depends on the accuracy of data collected.
- The present study is based on the published secondary data; hence the limitations of the published financial statement limitations may be applicable to the study as well.
- The period considered for the study is only last five year's financial statement. So, it is not possible to find out the life time performance of the company.
- Most of the information is collected from the financial statements. So the limitations of the financial statements may affect the study.

Non-monetary factors like human behaviour, their relationship extra are not considered.

FINDINGS OF THE STUDY

Ultra Tech Cement Ltd has the highest EPS ratio of 658.71 in the year 2019 during the five years. Higher EPS ratio is always good because higher the EPS the more money of shares of stock will be worth because investors are willing to pay for more higher profits. So, it has good EPS in the year 2020. In the year 2018 the EPS ratio is 189.02% which is moderate, it is also a good EPS ratio. India cement is having the negative EPS ratio of -1.15, which is not good for the company.

Ultra Tech Cement has the highest operating profit of 31.41 in the year 2019 during the five years. When operating margin is high, it means that the amount of operating profit generated on each dollar of revenue is high. In the year 2017 the operating margin is 17.69% so the company has low profitability. India Cement Ltd has the low operating margin of 9.78 in the year 2020 which bad for the company.

Ultra Tech Cement Ltd has the highest net profit margin of 18.36 in the year of 2019 during the five years. High net profit indicates that the company is more efficient at converting sale into actual profit. India Cement is having the negative net profit margin of -0.7 in the year 2018 which is not good for the company.

Ramco Cement Ltd has the highest gross profit margin of 22.63% in the year of 2019 during the five years. High gross profit margin indicates that the company is successfully producing profit over and above its costs. India Cement Ltd has the lowest gross profit margin of 5.12 % and so the company has low profitability.

Ultra Tech Cement Ltd has the highest current ratio of 1.83% in the year 2017 during the five years. High dividend pay-out ratio indicates that the company is having high. In the year 2019 Ramco Cement Industries ltd has the poor current ratio of 0.7% so the company has the poor profitability.

Ultra Tech Cement Ltd has the highest quick ratio of 1.5% in the year 2018 during the five years. High inventory turnover indicates that a company has effective inventory control methods in place, as well as strong sales procedures. Also, in the year of 2016 the Ramco Cement is having the lowest value of 0.43% which means the company is having the lowest profit.

From the this study, it shows that in 2016 the Ultra Tech Cement Ltd has the highest inventory turnover ratio of 9.93% during the five years. inventory turnover ratio is used to test the efficiency in inventory management. Ultra Tech Cement Ltd has the lowest inventory turnover ratio of 0.52% in the year 2018 so the company has low profitability.

Suggestion

Investors can invest in Ultra Tech Cement Ltd because it has higher earnings per share ratio when compare to all other cement companies. The Ramco Cement Ltd also has another option to invest because its fundamental analysis better compare to other cement companies. It is notable that Ultratech cement, India cement are the top performer of the industry as their EPS ratio are high compared to others. The Ramco Cement Ltd cement has good fixed asset turnover ratio in past three years due to that we can make much investment in that share. India cement is not performing well because its EPS ratio, Operating Margin is very less when compared to that of all other companies, hence we cannot invest in those companies.

Conclusion

Fundamental analysis is analysing the basic financial of the company from the balance sheet and income statement to consider it for further investment. The study initially has considered the stock price and then based on the data, has successfully applied fundamental tools like ratio analysis to determined that the health of a company based on the past data. The project has determined that the investment is surely dependent on the past performance of the company, the external factors and obviously the price of the stock. The results vary for different models and on different models and on different perspectives of people. The companies selected for the study shows that the industry is somewhat doing well as far as various ratios are concerned. It is notable that Ultratech Cement, Ramco Cement are the top performer of the industry. Ultratech Cement is the star performer in this group of companies under this study and Ramco Cement ranked second in the course of performance.

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