
Comparative Analysis of Financial Performance of ACC Cement Ltd. And AMBUJA Cement Ltd- A Study

*Dr.G.Syamala

**Aishwarya Nimbalkar

Introduction

The results of firm's policies and operations in monetary terms is called as Financial performance. It measures the general and overall financial health of the firm for a given period of time. The main purpose of preparing financial statements and its analysis is mainly for decision-making purposes. The process of financial performance analysis helps in identifying the strengths and weakness of the firm by establishing relationship between its financial statements. Financial statements help organizations in understanding how the firm is operating in real sense. Accounting Ratio's are one of the most important tool in understanding financial performance of the firm. Ratio analysis is the process of determining and interpreting financial statements its profitability, liquidity, solvency, and efficiency. Analysis of this ratio will help the firm, owners, investors, management, and stakeholders to take the decision on various aspects of business like investment, growth, diversification, and retrenchment.

Research Question

The financial health of a firm is analyzed or understood only through its financial statement. This will tell us about the company's performance. It is very important and necessary to know how a company is performing. Value creation, solvency, efficiency, cash flow, profitability, liquidity, and other operation can only be understood or interpreted after drawing proper financial statements. Financial statement analysis allows to analysis to identify the various trends and happenings in the organization. Hence, ratio analysis is one of the powerful tools to estimate the health of the firms. It also allows an analyst to measure profitability, liquidity, solvency, efficiency and cash flows. It provides an idea for investors to decide to invest their funds in a purchasing company. Financial statement analysis ensures past and current financial data of company's performance and financial position so that its future risks and potential can be estimated.

Hence, the paper seeks to find out what is the financial health of ACC Cement Ltd and AMBUJA Cement Ltd. over a period of five years from 2014 -2018.

Objective of the Study

To find out the profitability, liquidity, solvency and efficiency position of ACC Cement and AMBUJA cement Ltd

To analyze the financial performance of ACC Cement Ltd. And AMBUJA Cement Ltd.

To study how financial performance analysis helps in decision makings.

To compare the financial performance of ACC Cement Ltd. And AMBUJA Cement Ltd.

To justify the financial position of ACC Cement Ltd. And AMBUJA Cement Ltd.

Research Methodology

The secondary data has been used to analyze the financial performance of ACC Cement Ltd. And AMBUJA Cement Ltd. The data is collected from company's annual reports from 2014 to 2018.

The following study attempt to analyses four categories profitability, liquidity, efficiency and solvency and subcategories like- gross profit ratio, net profit ratio, return on equity ratio, current ratio, quick ratio, working capital turnover ratio, fixed assets turnover ratio, debt-equity ratio, and proprietary ratio.

Profile of ACC Cement Ltd.

ACC is one of the largest cement industry in India. A merger of 10 companies took place and in 1936 and ACC cements was formed. Pioneering efforts of F.E. Dinshaw brought Indian cement industry into existence. The core business of ACC is Cement with a brand name and status in India. Their operations are spread nationwide and they have a modern state of art and production capacity with 10000 workforce and 9000 dealers.

Profile of AMBUJA Cement Ltd.

AMBUJA Cement Ltd is one of the leading cement manufacturing companies in India. Founded by Narotam Sekhsaria in 1983 with partner Suresh Neotia. Sekhsaria's hardwork and leadership skill helped

* Department of Commerce, Savitribai Phule Pune University, Pune Maharashtra, India

** Department of Commerce, Savitribai Phule Pune University, Pune Maharashtra, India

the company progress in a short period of time. The actual cement production started in 1986. Today the company is known as Ambuja Cement Ltd. It has a workforce of more than 5000 persons and total turnover of Rs.10000crore. The Company products are cement and construction of roofs and slabs, and have specialized in rainwater harvest.

Data Analyses and Interpretations-

One of the benchmark in evaluating the financial performance of the firm is ratio's .It is used to summarize huge data of financial transaction and help in make qualitative judgments in relation to firm's financial performance. It will also help in future decision making process with future projections.

The purpose of these ratios is explained hereunder-

I) Liquidity Ratios-

It measures the ability of the firm to meets its short term obligations. (Higher the liquidity ratio indicates good short term financial position of the firm.

a) Current Ratio-

The current ratio measures whether the firm has enough Current Assets to meet its Current Liabilities.

b) Quick Ratio-

The quick ratio measures the ability of a company to use its quick assets to its current liabilities within short period.

II) Profitability Ratios-

Profitability ratios measure the efficiency and success of the firms. Higher the profitability, better the performance of the firm.

a)Gross Profit Ratio-

Gross profit ratio is the profitability ratio which shows the relationship between gross profit and total net sales revenue

b) Net Profit Ratio-

The net profit ratio is profit after tax, all costs of production, administration, and financing have been deducted from sales.

c) Return on Equity Ratio-

Return on equity is used to analyze the ability of the firm's management to give a return on capital invested by the owner of the firm.

III) Activity Ratios-

It measures the efficiency of the firm. It indicates the rapidity with which the resources available to the concern are being used to generate sales. (A higher ratio means the good performance of the firm.)

a) Working Capital Turnover Ratio-

It indicates how company efficiently uses its networking capital to support a given level of sales.

b) Fixed Assets Turnover Ratio-

It measures how the firm's ability to generate sales from its total net fixed assets.

IV) Solvency Ratios-

It indicates the long term financial policies of the company. Higher ratio indicates high risk for the company.

a)Debt-Equity Ratio-

It indicates the company's creditors to its shareholders equity. It is used to evaluate financial leverage

b) Proprietary Ratio-

The proprietary ratio measures financial stability of the firm..

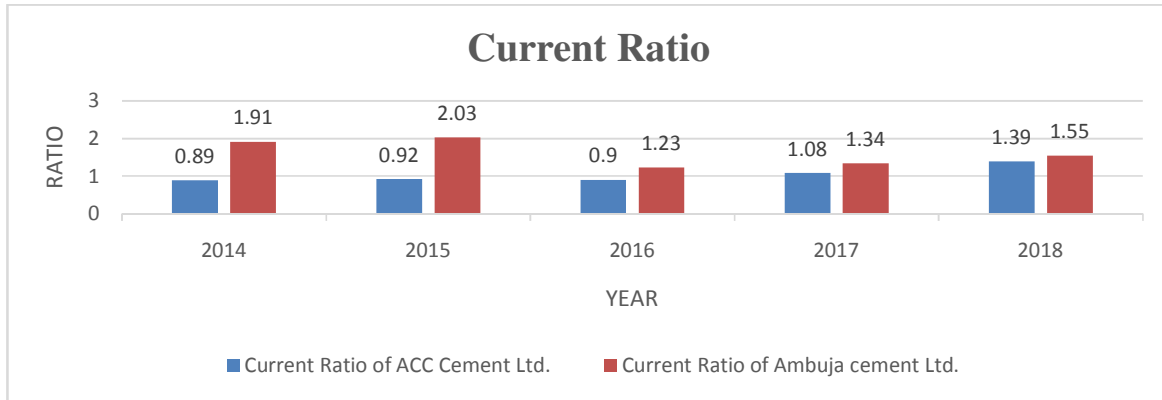
Explanation of the Ratios-

I) Liquidity Ratio-

a) Current Ratio Comparisons-

Current Ratio is Current Assets divided by Current Liabilities.

The comparative graphs of Current Ratio ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretations-

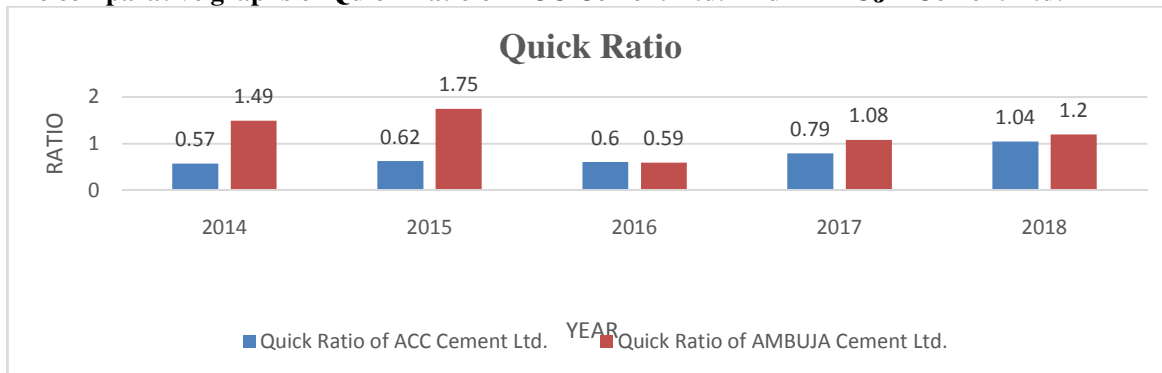
The current ratio of ACC limited was 0.89 in the year 2014 which rose to 0.92 in the year 2015 and it remained constant in the year 2016 which increased to 1.08 in 2017 and further increased to 1.39 in the year 2018.

AMBUJA Cement Ltd. had the highest current ratio during the period between 2014 and 2015 i.e. 1.91 and 2.03. In the year 2016 to 2017, there has been sudden fall in the ratio to 1.23 and 1.34 subsequently and in the year in 2018 analysis shows that the ratio has increased to 1.55.

b) Quick Ratio Comparisons-

Quick Ratio is Quick Assets divided by Current Liabilities.

The comparative graphs of Quick Ratio of ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretation-

The quick ratio of ACC Cement Ltd. for the first 3 years did not show many changes. It more or less remained constant for 3 years i.e. 2014, 2015 and 2016, but the ratio increased to 0.79 in the year 2017 and last year it reached to 1.04. It is the highest ratio as compared to all the previous year.

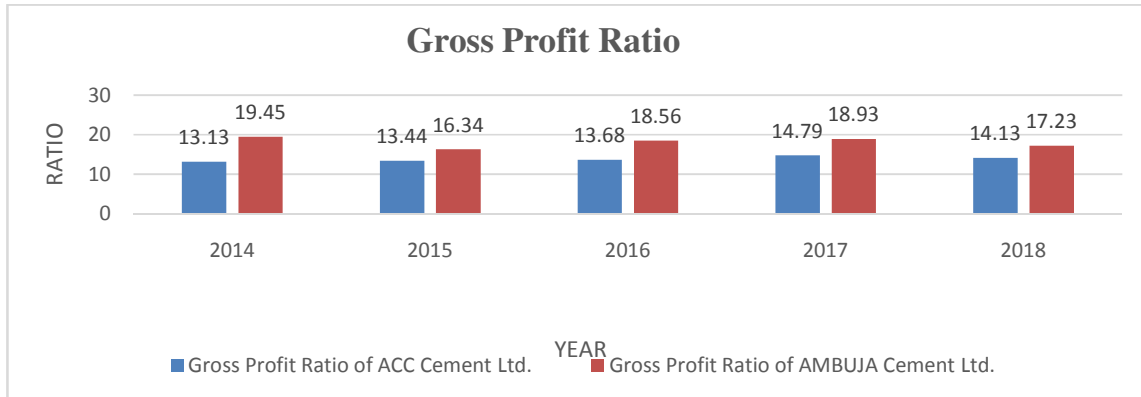
AMBUJA Cement Ltd. had a quick ratio of 1.49 in the year 2014 and it increased to 1.75 in 2015. This was due to an increase in quick assets. This was the highest quick ratio over the years. In the year 2016 it was 0.59 which is the lowest ratio in the years and again picked up in the year 2017 and 2018 to 1.08 and 1.2 subsequently.

II) Profitability Ratios-

a) Gross Profit Ratio Comparisons-

Gross Profit Ratio formula is Gross Profit is divided by Net Sales*100

The comparative graphs of Gross Profit Ratio of ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretations-

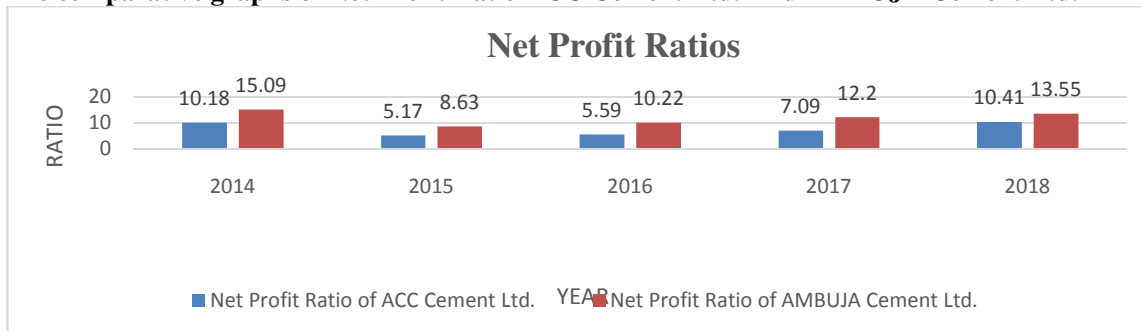
ACC Cement Ltd had a gross profit ratio of 13.13 in 2014 its lowest one as compared to another year, then in 2015 it picked up by 0.31% from the previous year and in 2016 it little bit increased to 13.68 and thereafter it again increased to 14.79 in 2017. Andin 2018 it decreased by 0.63% as compared to 2017.

Initially, 19.45 was the highest gross profit ratio of AMBUJA Cement Ltd., then it decreased to 16.34 in 2015. It increased to 18.56 in the year 2016, It increased slightly to 18.93 in the year 2017 this indicates that company able to manage their production related cost. In the year 2018 it decreased to 17.23 this shows that their ability to manage their production related cost decreased.

b) Net Profit Ratios Comparisons-

Net Profit Ratio is Net Profit divided by Net Sales*100

The comparative graphs of Net Profit Ratio ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretations-

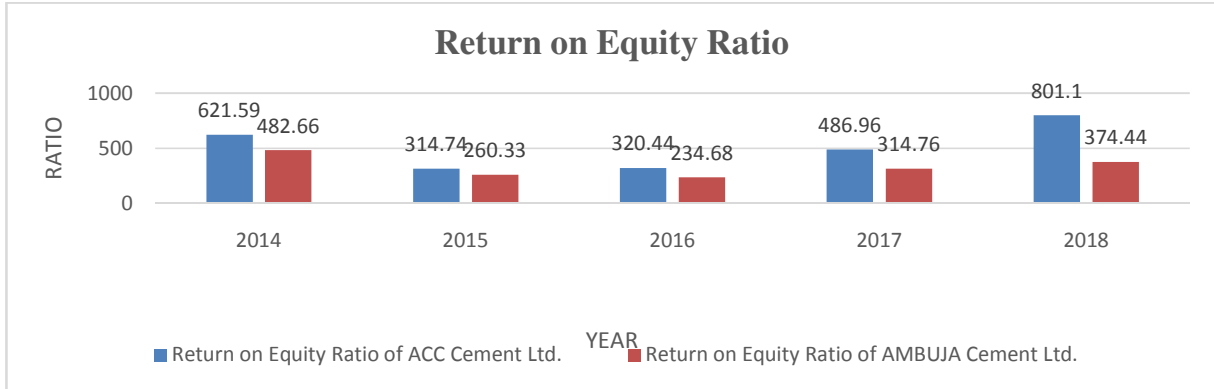
The net profit of ACC Cement Ltd. for the year 2014 was higher i.e.10.18 and it fell to 5.17 in the year 2015. In the year 2016, the net profit ratio increased to 5.59 as compared to 2015. In the year 2017 ratio increased to 7.9, the increasing net profit ratio tells the company ability to manage their operating and non-operating expenses and thereafter ratio increased to 10.41.

The net profit ratio of AMBUJA cement ltd in the year 2014 is 15.09 it is the highest ratio as compared to all the years.In the year 2015, the gross profit suddenly fell to 8.63 and after that 2016 it slightly increased to 10.22 and it again increased to 12.20 in the year 2017. In the year 2018, the net profit ratio increased to 13.55.This shows that there is lot of variation in the net profit of AMBUJA cement Ltd.

c) Return on Equity RatioComparisons-

Return on Equity Ratio is Net Profit after Interest, Tax and Preference Dividend divided by Equity Shareholders Funds.*100

The comparative graphs of Return on Equity Ratio of ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretation-

Return on equity ratio of ACC Cement Ltd. was 621.59 in 2014 than it decreased to 314.74 in 2015 which increased to 320.44 in the year 2016 and further increased to 486.96 in the year 2017 and again increased to 801.1 its highest ratio in the year 2018, this was because of increase in EBIT.

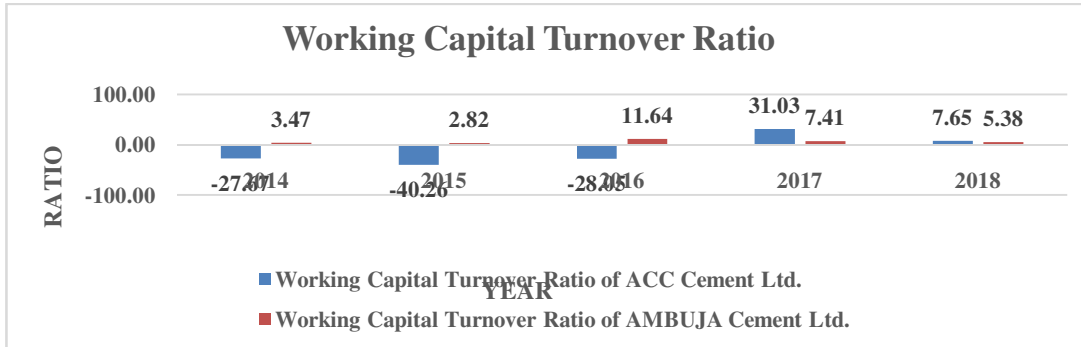
The Return on equity ratio of AMBUJA Cement was 482.66 in the year 2014 which decreased to 260.33 in the year 2015, it further decreased to 234.68 in the year 2016 and it again increased to 314.76 in the year 2017 and further increased to 374.44 in the year 2018. This shows that there is a consistent decrease in their net profit because of reasons like increase in expenses, reduction in sales or some other reason. Following analysis of AMBUJA is seen because there might be increase or decrease in sales over the period of 2014 to 2018.

III) Activity Ratio-

a) Working Capital Turnover Ratio Comparisons-

Working Capital Turnover Ratio is Sales divided by Net Working Capital.

The comparative graphs of Working Capital Turnover Ratio of ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretation-

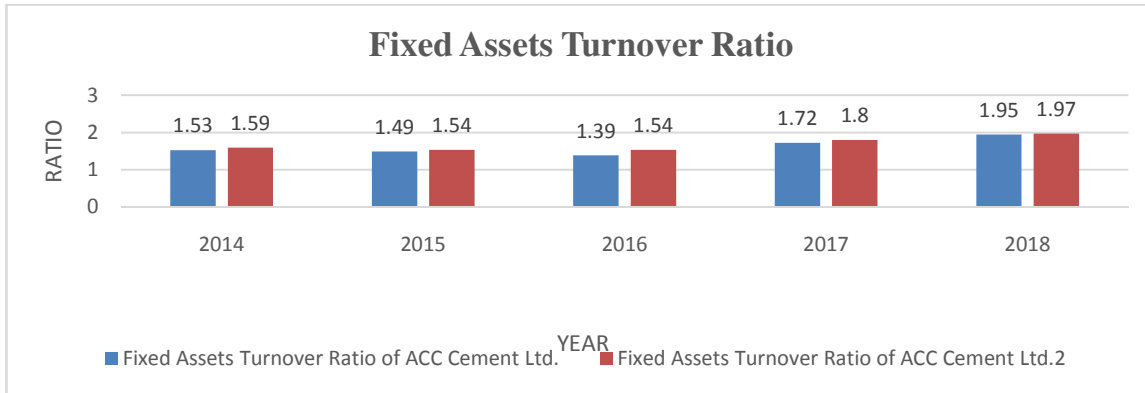
In the year 2014 working capital turnover ratio was -27.67, in 2015 it declined more to -40.26 and in 2016 it still remains negative which was -28.05 and thereafter in 2017 the ratio became positive and grew to 31.03. In 2018 it remains positive but declines to 7.65. This shows that they have improved in their current assets from 2017 and 2018. year 2017 sees a positive working capital turnover ratio this means their net profit increased and resulted in increase in current assets.

AMBUJA-In 2014 working capital turnover ratio was positive 3.47 after which 2015 it declined to 2.82 and in 2016 a tremendous growth in the ratio was seen as 11.64 and thereafter in 2017 it declined back to 7.41 and in the year 2018, it diminished more to 5.38. The reason for increase in Working Capital Turnover Ratio in the year 2016 is because their current assets increased.

b) Fixed Assets Turnover Ratio Comparisons-

Fixed Assets Turnover Ratio is Sales divided by Net Fixed Assets.

The comparative graphs of Fixed Assets Turnover Ratio of ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretations-

ACC: In the year 2014 their Fixed Asset Turnover Ratio is 1.53, in 2015 it decreased to 1.49 then it further decreased to 1.39 and it slightly increased to 1.72 in the year 2017 and further increased to 1.95 in the year 2018.

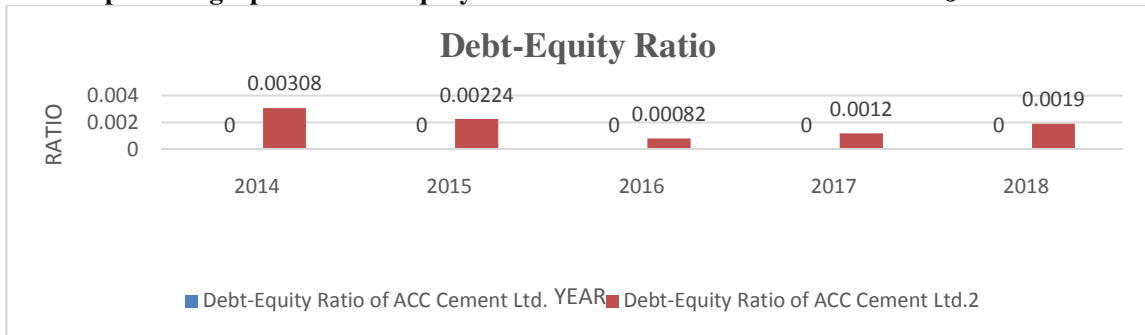
AMBUJA Cement: In the year 2014 their fixed Assets Turnover Ratio is 1.59, in 2015 it slightly decreased to 1.54 and remained more or less the same in the coming years up to 2018.

IV) Leverage Ratio-

a) Debt-Equity Ratio Comparisons-

Debt-Equity Ratio is Long Term Debt divided by Shareholders Funds.

The comparative graphs of Debt-Equity Ratio of ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretations-

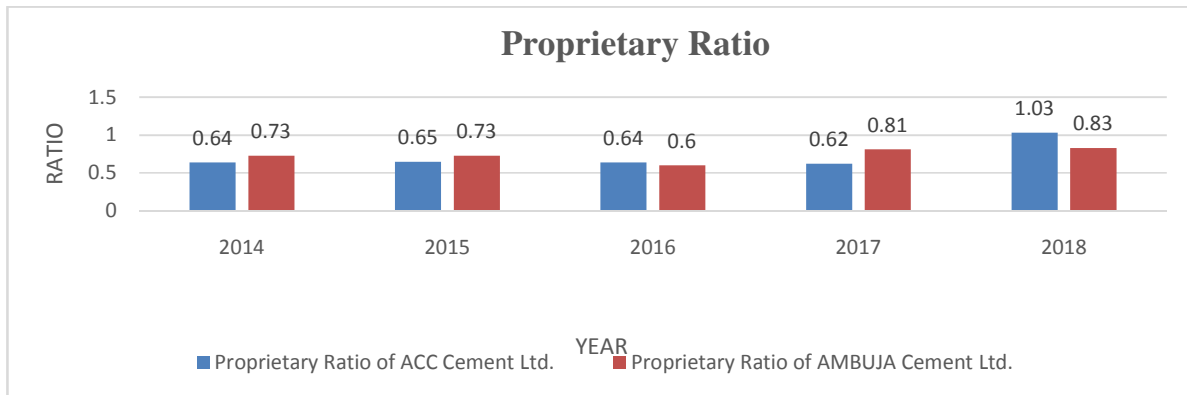
ACC Cement Ltd. had a 0 debt-equity ratio for all the years because there were no debts and no loan payment.

AMBUJA Cement Ltd. had a debt ratio of 0.003 in the year 2014 then it went down to 0.002 in the year 2015 then it further decreased by 0.0008 and grew up to 0.0012 in 2017 and In the year 2018 total debt equity ratio increased to 0.0019. This shown that their debts have increased which is not good for the company.

b) Proprietary Ratio Comparisons-

Proprietary Ratio is Shareholders’ Funds divided by Total Assets.

The comparative graphs of Proprietary Ratio of ACC Cement Ltd. And AMBUJA Cement Ltd.



Interpretations-

The proprietary ratio of ACC in the year 2014 is 0.64 and remained more or less constant, but increased to 1.03 in the year 2018. This shows that their shareholders fund has increased over its total assets.

AMBUJA shows a slight dip in the year 2016 to 0.6, but analysis shows that it is more or less the same in all the years. Till 2018. This also means that their shareholders funds have increased over its total assets.

Findings

The current ratio of AMBUJA Cement Ltd. is higher than ACC Cement Ltd.

AMBUJA Cement Ltd. has better quick ratio than ACC Cement Ltd. that means the company is able to meet its short term obligation better.

AMBUJA Cement Ltd. has higher profitability as compared to ACC Cement Ltd. This shows that their ability to produce more at less cost.

The net profit ratio of AMBUJA Cement Ltd. is higher indicating that the company has a higher capacity to pay to its owners.

Return on equity ratio of ACC Cement Ltd. is higher than AMBUJA Cement Ltd. which shows that it is giving a good return to its equity shareholders that shows the ACC Cement Ltd. has a good market position as compared to AMBUJA Cement Ltd.

The fixed assets turnover ratio of AMBUJA Cement Ltd. is higher than ACC Cement Ltd. This shows that AMBUJA is more efficiently utilizing its investment in fixed assets to generate sales.

A working capital turnover ratio of AMBUJA Cement Ltd. is better than ACC Cement Ltd. This means it is able to pay its current liabilities with its current assets.

ACC Cement Ltd. has 0 debt as compared to AMBUJA Cement Ltd. this shows they have less leveraged and better equity, thus ACC Cement Ltd. need not use borrowing capacity.

ACC Cement Ltd. has a better proprietary ratio as compared to AMBUJA Cement Ltd. that shows ACC Cement Ltd. has a stronger financial position and better security for its creditors as compared to AMBUJA Cement Ltd.

Conclusion

This shows that AMBUJA Cement Ltd. is performing better its current ratio, quick ratio, gross profit ratio, net profit ratio, fixed assets turnover ratio, and working capital turnover ratio. But in case of return equity ratio, proprietary ratio and debt-equity ratio ACC Cement Ltd. is doing better showing that it has a better market position as compared to AMBUJA Cement Ltd.

From the investor's point of view, ACC Cement Ltd. is a better option as it is providing a better return for their stock as its return on equity is good. It also has better proprietary ratio and debt-equity ratio which shows that the firm has better financial position and clear of debts and AMBUJA Cement Ltd. performing is also good as it shows returns in the firm's profits, this tells that they are financially sound and the management system, policies, and procedures all in place and their decision making is stable.

References:-

- 1]Ahmed A A (2012), "Financial Performance Analysis of the Jordanian Arab Bank by Using the DuPont System of Financial Analysis. International Journal of Economics and Finance, 4(4), 86-94.
- [2]Christina, S S., & Karthikeyan, K., (2012). Financial Performance of Pharmaceutical Industry in India using DuPont Analysis. European Journal of Business and Management, 4(14), 84-91.