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A COMPARATIVE STUDY ON PROFITABILITY OF SELECTED INDIAN CEMENT COMPANIES

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ANNOTATION

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Profitability means a company's ability to earn return on investment through its business activities. It shows how the resources are efficiently utilised to achieve its goal of earning profits. Profits are essential for the organisation to make dividend payments to its shareholders as well as retain a part of profits as reserves to overcome the unforeseen circumstances in the near future. The attempt is made in this study to know the profitability position of three cement companies in terms of gross profit margin, net profit margin and return on equity and return on capital employed and deep insight is to be made with regards to return to shareholders as well as debt holders of the company. Shree cement limited stands first in satisfying both equity holder and debt holder as compared to Ultra tech cement and Dalmia Bharat cement limited,

KEY WORDS: ***Gross Profit Margin, Net Profit Margin, ROE, ROCE,***

SECTION- I

INTRODUCTION

Profitability means a company's ability to earn return on investment through its business activities. The old adage "what gets measured, gets improved" isn't *quite* true. What gets measured simply gives an empirical basis for improvement. In view of this proverb profitability shows how the resources are efficiently utilized to achieve its goal of earning profits. Profits are essential for the organization to make dividend payments to its shareholders as well as retain a part of profits as reserves to overcome the unforeseen circumstances in the near future.

Profitability ratios can be divided in two type's margins and returns, ratio that shows margins represent firm's capacity to translate sales into profits at various stages of measurement and returns denote a firm's overall ability and efficiency in generating returns for its shareholders.

The profitability of a company largely determines its success. Economists measure companies' profitability to gain intuition into the general stability of certain industries, sectors, and/or the economy as a whole. By better understanding the stability of the private sector, policymakers are able to form the most relevant and useful policies for the economy. Revenue generated from the sale of output, input costs, and opportunity costs constitute the scope of a profitability analysis. When factored together, these elements combine to create profitability ratios that are used to measure profitability. The most common profitability ratios include the net profit margin, gross profit margin, operating margin, return on assets, and return on equity ratio.

Against this background the paper is organized in Four sections, **First** section deals with Introduction, Objectives of the Study, Second section consists Research Methodology consisting sources of data, period of the study, sample and sample size and tools used, **Third** section deals with the Analysis and Results and **Fourth** section consists of Findings, Suggestions and Limitations of the study.

OBECTIVES OF THE STUDY

To evaluate profitability of the select cement companies in India the following objectives have been set for our study are as under:

1. To know the operating profit margin
2. To know the net profit margin
3. To know the return on equity or net worth
4. To know the return on capital employed

SECTION-II

RESEARCH METHDOLOGY

Sources of data: data collected from secondary sources that consists journals, authorised websites, annual reports, consolidated financial statement of respective companies.

Period of the study: 5 years period is considered for the study from 2017-18 to 2021-22

Sample size and sampling method: the following three profit making cement companies are selected for our study simple random sampling method is used to choose the sample size.

1. Ultra tech Cement Limited
2. Shree Cement Limited
3. Dalmia Bharat Cement Limited

Tools Used: Mean, Standard Deviation, Coefficient of variance, Profitability ratios: to know the profitability ratios of cement companies Operating profit margin, Net profit margin, Return on Equity or Net worth, Return on Capital Employed are used.

SECTION – III

RESULTS AND ANALYSIS

OPERATING PROFIT MARGINE:

Operating profit margin is ratio between Gross Profit or Operating profit and sales revenues. Usually, this is being calculated in percentage mathematical calculation of which is as under:

$$\text{Operating Profit Margin} = \frac{\text{Gross Profit} \times 100}{\text{Sales}}$$

Where,

OPM = Operating Profit Margin

GP= Gross Profit=Sales-Cost of Sales

S = Sales/Revenue.

Operating Profit margin exhibits operating efficiency of revenue management of the company. Higher the OPM. Higher will be the efficiency, higher profitability of sales. Whereas, lower the OPM lower will be the profitability of sales. Improvement in OPM can be found either through enhancement in sales e or decrease in operating costs or both. For cement companies operating profit margin for the study period is as under,

TABLE -1 SHOWING OPERATING PROFIT MARGIN (OPM) OF SELECT CEMENT COMPANIES IN INDIA FOR THE STUDY PERIOD FROM 2017-18 TO 2021-22 (IN PERCENTAGE)

COMPANY/YEAR	ULTRA TECH CEMENT LTD	SHREE CEMENT LTD	DALMIA BHARAT CEMENT LTD
2017-18	19.83	27.55	23.56
2018-19	17.65	22.25	20.57
2019-20	21.79	29.21	21.53
2020-21	25.86	30.06	26.52
2021-22	21.89	24.7	21.53
AVERAGE	**21.40**	**26.75**	**22.74**
STAND DEVIATION	**2.71**	**2.90**	**2.13**
CV	**12.68**	**10.85**	**9.35**

Source: www.money control.com

The above table reveals the average operating profit of Select Cement companies which are range from 21.40 %to 26.75%. The operating profit margin of all the cement companies for the study period is fluctuating and the Shree Cement Ltd showing a highest average operating profit margin and Ultra Tech showing lowest average operating profit margin. Standard deviation in all the companies is range from 2.13 to 2.70 and highest standard deviation is found in Shree Cement Limited and lowest in Dalmia Bharat Cement Ltd. But all the company’s standard deviation is more or less same with slight changes. Co-efficient of variance range from 9.35% to 12.68.% the highest co-efficient of variance is found in Ultra Tech cement Ltd and lowest in Dhalmia Bharat Cement Ltd from this we come to know that more consistency as regards to OPM is found in Dhalmia Bharat Cement Ltd as compared to Ultra Tech and Shree Cement Ltd.

NET PROFIT MARGIN

It is the measure of ascertaining profitability of sales or revenue which establishes a relationship between earning after tax available to shareholders and sales. Higher the Net Profit Margin, better is the profitability, lower the Net Profit Margin, lower will be the profitability Net Profit Margin is to be calculated with the following equation:

NPM= Net Profit ×100/ Sales

Where,

NPM = Net Profit Margin

NP= Net profit

S = Sales/Revenue.

For cement companies net profit margin is as follows:

TABLE-2 SHOWING NET PROFIT MARGIN OF SELECT CEMENT COMPANIES IN INDIA FOR THE STUDY PERIOD FROM 2017-18 TO 2021-22 (IN PERCENTAGE)

Company/year	ULTRA TECH CEMENT LTD	SHREE CEMENT LTD	DALMIA BHARAT CEMENT LTD
2017-18	7.17	13.62	3.41
2018-19	5.77	8.01	3.24
2019-20	13.56	11.93	2.31
2020-21	12.21	16.96	11.69
2021-22	13.94	15.53	10.13
AVERAGE	**10.53**	**13.21**	**6.16**
STAND DEVIATION	**3.39**	**3.11**	**3.93**
CV	**32.33**	**23.53**	**63.85**

Source: www.money control.com

The above table No.2 Net profit margin exhibited by Cement Companies in India for the study period was not uniform. The average net profit margin range from 6.16% to 10.53%. The Shree Cement average net profit is more and Dhalmia Bharat Cement Ltd is less and standard deviation of cement companies range from 3.11% to 3.93% more standard deviation is found in Dhalmia Bharat Cement Ltd and less in Shree Cement Ltd and co-efficient of covariance is range from 23.53% to 63.85% . the coefficient of variance of Shree Cement Ltd is less which shows that more consistency in net profit margin is maintained during the study period as compared to Ultra Tech Cement Ltd and Dhalmia Bharat Cement Limited

NET WORTH OR RETURN ON EQUITY

There is no doubt that the real owner are the ordinary shareholders who bear all the risk, participate in the management and are entitled to all the profits remaining after all outside claims including preference dividends are met in full. The profitability of a firm from the owner's point of view should, therefore, in the fitness of things be assessed in terms of the return to equity shareholders. The ratio under reference serves this purpose. It is calculated by following equation:

Return on Equity =

Net profit after tax- preference dividend ×100

Average Ordinary Shareholders Equity

TABLE - 3 SHOWING RETURN ON EQUITY OF **SELECT CEMENT COMPANIES IN INDIA FOR THE STUDY PERIOD FROM 2017-18 TO 2021-22 (IN PERCENTAGE)**

Company/year	ULTRA TECH CEMENT LTD	SHREE CEMENT LTD	DALMIA BHARAT BHARAT LTD
2017-18	8.42	15.55	7.95
2018-19	8.48	10.40	2.89
2019-20	14.75	11.66	2.12
2020-21	12.37	14.84	9.75
2021-22	14.54	13.35	7.3
AVERAGE	**11.71**	**13.16**	**6**
STAND DEVIATION	**2.79**	**1.92**	**2.98**
CV	**23.83**	**14.59**	**49.58**

Source: www.money control.com

The above table no.3 presents the 5years value relating to the return on equity of select cement companies Ltd. From the cursory glance over the table, it may be noticed that the range of return on equity during the study period is from 6% to 13.16 and all the companies average return on equity is below 15%. highest return on equity is found in Shree Cement Company Ltd is 13.16% and very less in Dhalmia Bharat Cement Ltd. 6% and the standard deviation of select cement companies range from 2.92% to 2.98% the lowest standard deviation found in the Shree Cement Company Ltd and and highest standard deviation is found in Dhalmia Bharat Cement Ltd. And the coefficient of variation ranges from 14.59% to 49.58% the highest coefficient of variation is found in Dhalmia Bharat Cement Ltd. And lowest coefficient of variance found in the Shree Cement Company Ltd all the companies during the study period are failed in satisfying real owners of the company.

RETURN ON CAPITAL EMPLOYED

These returns measure the efficiency of a company in utilising of its assets. By evaluating ROCE, the management can take decisions that'll help them minimise the inefficiencies. Higher the ROCE, higher will be the efficiency in the production process of the company.

Return on Capital Employed (ROCE)=
EBIT/Capital employed

TABLE - 4 SHOWING RETURN ON CAPITAL EMPLOYED OF SELECT CEMENT COMPANIES IN INDIA FOR THE STUDY PERIOD FROM 2017-18 TO 2021-22 (IN PERCENTAGE)

Company/year	ULTRA TECH LTD	SHREE CEMENT LTD	DHALMIA BHARAT CEMENT LTD
2017-18	10.85	18.62	6.5
2018-19	9.23	12.62	5.72
2019-20	11.86	14.34	5.04
2020-21	15.5	18.88	11
2021-22	15.34	15.95	7.18
AVERAGE	**12.56**	**16.08**	**7.09**
STAND DEVIATION	**2.48**	**2.42**	**2.08**
CV	**19.79**	**15.05**	**29.41**

Source: www.money control.com.

The above table gives glance at Return on Capital Employed of Select Cement Companies Ltd. The average return on capital employed range from 7. 09% to 16.08%. the Shree cement company limited is showing highest return on capital employed and lowest is shown by Dhalmia Bharat Cement Ltd during the study period. And standard deviation is range from 2.08% to 2.48% all the three cement companies are showing more or less equal deviation but co-efficient variance is range from 15.05% to 29.41% more coefficient of variation is found in Dhalmi Bharat Cement Ltd and less in case of Shree Cement Ltd. But all the three companies return on capital employed is very less and all the companies are failed to dig return on capital employed during the study period. From the investor point of view the performance of all the companies are not good.

SECTION – IV

FINDINGS OF THE STUDY

1. The average operating profit of Shree cement is more compared to others
2. The operating profit margin is more consistent in Dalmia Bharat cement company as compared to Ultra Tech and Shree Cement Ltd.
3. The Average net profit of Shree cement is more with less deviation
4. Shree Cement has maintained consistency as regards to net profit margin compared to Ultra Tech and Dalmia cement company during the study period
5. Average return on capital employed is more in Shree Cement Limited as compared to others
6. More consistency is found as regards to capital employed in Shree cement company as compared to Ultra Tech and Dhalmia cement company during the study period
7. The average return on net worth of Shree Cement is more as compared to others with Less standard deviation during the study period
8. Shree Cement Company has maintained consistency as regards to return on net worth

SUGGESTIONS

1. Ultra Tech and Shree Cement Company Has to Improve operating efficiency by minimising operating Costs.
2. Dalmia Bharat Cement has to improve Net profit.
3. Dalmia Bharat Cement has to increase return on net worth in order to attract prospective investors.
4. Dalmia Bharat cement has to improve return on capital employed which increases the confidence among the creditors, financial institutions, suppliers and investors both present as well as prospective investors.

LIMITATIONS OF THE STUDY

1. The study is based on secondary data and no primary data is used.
2. Only three cement companies are considered and study covers only 5 years period.

3. There are so many other parameters are there to reveal profitability of cement company but we are considered here two profitability ratios and two return ratios.
4. The accuracy of the study is based on the accuracy of the data in the website of stock market.

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