

## A fundamental analysis of cement industry in India

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### Abstract

Cement Industry is in boom since liberalization in India. Cement is required from construction home to dam, from road to building everywhere cement will be utilized for the development of the country. The few companies are doing extremely very well for building the nation. This study covered the fundamental analysis of cement industry in India based on their market capitalization. The researcher used three major ratios to analyze the fundamentals of the company performance. Based on findings India Cement Limited is strong company.

**Keywords:** Cement Industry, Fundamental Analysis and India

### Introduction

In any stock market analysis of equity shares are very important. In analysis two types of analysis. First is primary analysis which is fundamental analysis and second is technical analysis. The primary analysis is most powerful analysis of stock in security market. The company's final reports are only the evidence for financial performance since it is incorporated. The fundamental analysis will help the investors and prospective investors for betterment of the investment in equity shares and other financial instruments. The fundamental analysis gives correct motivation for investment for every investor, viz. liquidity ratio, leverage ratio, turnover ratio and profitability ratio.

Liquidity ratio gives short term liquidity position of the company. The first analysis is liquidity ratio viz. current ratio, quick ratio, working capital ratio. Leverage ratio is considered for long term financial stability of the firm as dependent upon its ability to meet all its liabilities, including those not currently payable. The turnover ratios measure how effectively the firm employs its resources. It involves comparison between the level of sales and investment in various assets – inventories, debtors, fixed assets etc. profitability ratios are to help assessing the adequacy of profits earned by the company and also to discover whether profitability is increasing or declining.

### Review of Literature

Krishna Kumar *et al.* (2013)<sup>[1]</sup> investigated the performance of cements industry in India for 15 years and also estimated the growth rate for next five years. The researcher used the only secondary sources of data published by Cement Manufacturers Association, EXIM Bank and Centre for Monitoring Indian Economy. To estimate the future growth the researcher used trend analysis, cyclical variation and seasonal variation.

Wafi *et al.* (2015)<sup>[2]</sup> investigated the fundamental analysis model using discounted dividend model (DDM) through a multiplier models and finally the discounted cash flow model (DCFm). The researcher built strength on these models for

analyzing the fundamental analysis of securities.

### Objectives of the Study

1. To know the factors affecting the fundamental analysis of the cement industry.
2. To analyze the cement company based on fundamental analysis.
3. To recommend the stock based on fundamental analysis.

### Research Methodology

Top 5 companies are taken for analysis based on their revenue in last financial years. The company must be listed in National Stock Exchange (NSE) India. The analysis is based on secondary data published by the respective companies. The following companies were selected for data analysis.

1. ACC Limited
2. Gujarat Ambuja Cement Limited.
3. India Cement Limited
4. UltraTech Cement Limited
5. Jaypee Cement Limited

### Period of the Study

The study covers the 3 financial years as period from 2013-14 to 2015-16.

### Data Analysis

The following important ratios were measured to analyze the fundamental factors of the companies.

### Current Ratio

The current ratio is measured based on short term commitment of the organization. The organization must follow 2:1 ratio regarding the ratio. The following formula is used to measure the current ratio.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

<sup>1</sup> Krishan Kumar P; Franklin John S; and Senith S (2013), A Study on the Progress of Indian Cement Industry, *British Journal of Marketing Studies*, Vol 1, Iss. 1, pp. 1-15.

<sup>2</sup> Wafi, Ahmed S; Hassan, Hassan; and Mabrouk, Adel (2015), Fundamental Analysis Models in Financial Markets – Review Study, *Procedia Economics and Finance*, Vol. 30, pp. 939-947.

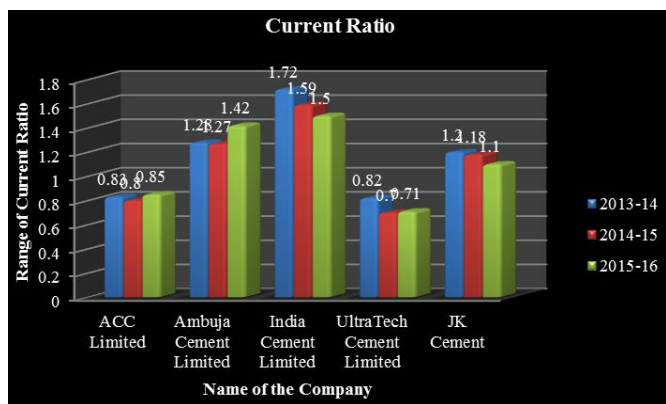
Table 1

Companies	Year			Average
	2013-14	2014-15	2015-16	
ACC Limited	0.83	0.80	0.85	0.82
Ambuja Cement Limited	1.28	1.27	1.42	1.32
India Cement Limited	1.72	1.59	1.50	1.60
UltraTech Cement Limited	0.82	0.70	0.71	0.74
JK Cement	1.20	1.18	1.10	1.16

Source: Financial Reports

**Analysis**

From the above table it is depicted that the highest current ratio was 1.60 maintained by India Cement Limited and lowest current ratio was 0.74:1 maintained by UltraTech Cement Limited. And other organization was between India Cement Limited and UltraTech Cement Limited.



Graph 1

**Inference**

From the above graph it is depicted that, the India Cement Limited is first priority for investment because an average current ratio higher than any other cement companies. The second priority was Ambuja Cement Limited, third JK Cement Limited, fourth ACC Limited and final and fifth is UltraTech Cement Limited.

**Price Earnings Ratio**

Price earnings ratio indicates the current market value of the securities. Lower the PE ratio greater the value of the securities. The following formula is used to measure the PE ratio.

$$PE\ Ratio = \frac{Market\ Price}{Earning\ Per\ Share}$$

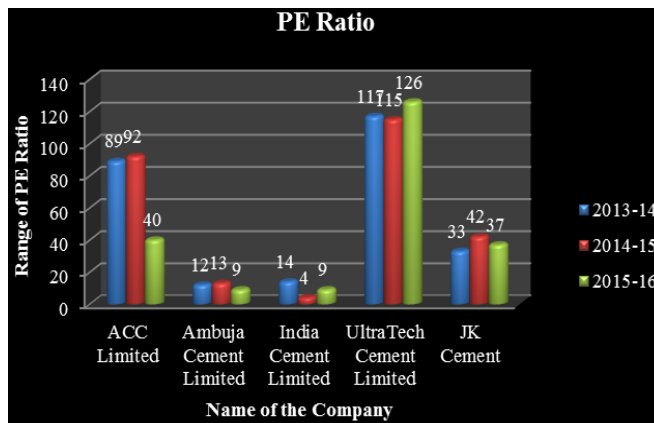
Table 2

Companies	Years			Average
	2013-14	2014-15	2015-16	
ACC Limited	89	92	40	074
Ambuja Cement Limited	12	13	9	011
India Cement Limited	14	4	9	009
UltraTech Cement Limited	117	115	126	119
JK Cement	33	42	37	037

Source: Financial Reports

**Analysis**

From the above table it is depicted that, the price earnings ratio of the cement companies in India for last three years. Lower the PE ratios better the market price to buy the stock. According to the above table India Cement Limited had 9 times, it should be first priority to buy stock than any other stock. But, the UltraTech Cement Limited's PE ratio was 119 time, it shows the stock is overvalued.



Graph 2

**Inference**

From the above graph it is depicted that, the PE ratios of various stocks based on their market price and earnings per share. The India Cement Limited stands first priority to buy stock with 9 times of PE ratio. Secondly, Ambuja Cement limited with 11 times of PE ratio. Third priority was JK Cement Limited with PE ratio of 37 times. ACC Limited stands at fourth priority with 74 times of PE ratio. Fifth priority was UltraTech Cement Limited with 117 times of PE ratio.

**Debt to Equity Ratio**

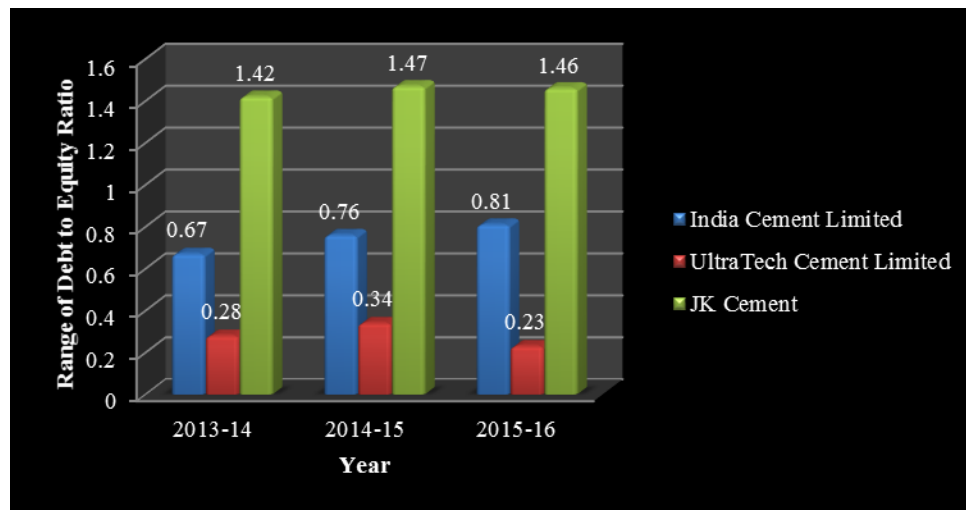
Table 3

Companies	Years			Average
	2013-14	2014-15	2015-16	
ACC Limited	Nil	Nil	Nil	Nil
Ambuja Cement Limited	Nil	Nil	Nil	Nil
India Cement Limited	0.67	0.76	0.81	0.75
UltraTech Cement Limited	0.28	0.34	0.23	0.28
JK Cement	1.42	1.47	1.46	1.45

Source: Financial Reports

**Analysis**

From the above table it is depicted that the debt utilized in capital structure of the company. The ACC Limited and Ambuja Cement Limited are absolutely debt free companies. UltraTech Cement Limited had Rs. 75 of debt for every Rs. 100 of equity capital and JK Cement had Rs. 145 of debt for every Rs. 100 of equity capital.



Graph 3

### Inference

From the above table it is depicted that the lower the debt to equity ratio better to invest on such companies. ACC Limited and Ambuja Cement Limited had no debt in the company. Followed by UltraTech Cement Limited with 0.28:1, India Cement Limited with 0.75:1 and JK Cement with 1.45:1.

### Limitations

1. The study covered only last three years based on financial reports published by the company.
2. The study took top five companies based on market capitalization and more specific it had covered only cement industry of India.
3. It covered only the fundamental analysis of the companies and other factors remain constant.

### Conclusion

The cement industry is one the majors in infrastructure building in the country. Cement industry is backbone to infrastructure development. In investors point of view the India Cement Limited has done well in cement industry in India. Followed by Ambuja Cement Limited, JK Cement, ACC Limited and UltraTech Cement Limited.

### References

1. Krishan Kumar P, Franklin John S, Senith S. A Study on the Progress of Indian Cement Industry, British Journal of Marketing Studies. 2013; 1(1):1-15.
2. Wafi Ahmed S, Hassan, Mabrouk Adel. Fundamental Analysis Models in Financial Markets – Review Study, Procedia Economics and Finance 2015; 30:939-947.