

A comparative study on the financial performance and earnings values of Ultratech cement and Ramco cement

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Abstract

Finance is a field that deals with the study of investments, the dynamics of assets and liabilities at different degrees of uncertainty and risk. Earnings per share is the portion of company's profit allocated to each outstanding share of common stock. They play a dominant role in setting the frame work and managerial conclusion can be drawn from these statements. The project entitled "A Comparative Study on the Financial Performance and Earnings Values of Ultratech Cement and Ramco Cement" throws light on overall financial performance of the company and its Earnings per share. For this analysis the tools used are Comparative Income Statement and Earnings per Share.

Keywords: comparative income statement and earnings per share

Introduction

Cement is the most essential raw material in any kind of construction activity. Accordingly, cement industry plays a crucial role in infrastructure development of the country. Given the vast geographical Size and massive population of the country, various construction activities undertaken by the central government, state governments, public sector undertaking and other organizations, including private sector generates huge demand for cement. India is the second largest producer of quality cement in the world. The cement industry in India comprises 183 large cement plants and over 365 mini cement plants. Ultratech Cement was incorporated in 2000 as Larsen & Toubro. Later it was demerged and acquired by Grasim and was renamed as Ultra Tech Cement in 2004. Today Ultratech cement a part of Aditya Birla group, is the country's largest exporter of cement clinker. Ramco Cements Limited (formerly Madras Cements Ltd) is the flagship company of the Ramco Group, a business group based in Chennai, South India. It is the fifth largest cement producer in India. The company also produces ready mix concrete and dry mortar products and operates wind farms.

Statement of the problem

Financial system of a country is the most essential factor for the economy's development and performance. The firm communicates financial information to the users through financial statement and reports. Financial statement comprises of two statements namely Balance Sheet and Profit & Loss Account. Financial analysis is done to evaluate the performance and liquidity of the industry by properly analyzing the items of Balance Sheet. It helps in better understanding of industries financial position, liquidity and performance by analyzing the financial statements with various tools and evaluating the relationship between various elements of financial statements. Therefore, it results in this analyzing and comparing the financial performance of selected cement industries.

Objectives of Study

- To compare efficiency of Ultratech Cement and Ramco Cement companies in utilization of financial resources.
- To find earnings value of Ultra tech Cement and Ramco Cement.

Research Methodology

Research design is the structure of investigation to obtain answers to research questions. The study was mostly on secondary data collected from investopedia.com

Source of Data

Secondary data has been collected from various journals and websites like moneycontrol.com.

Tools used for the study

The following tools have been applied in the study,

- EPS (Earnings Per Share)
- Comparative income statement

Review of Literature

Smita Rao & Hetal Gaglani (2016) ^[1], they conducted study on the sample of nine selected textile company for the period of 2004–2013. The result has been obtained by applying ANOVA for identifying the relationship between receivable management and working capital management of company. The study revealed that of all the receivables has significant contribution in current assets, total assets, sales and working capital of companies.

Geetha T N & Ramasamy S. (2016) ^[2], in this research the author make use of cement industry in India to find out the overall financial performance efficiency. Twelve years data has been employed in this study from 2001-2002 to 2012-2013. To find out the overall performance efficiency the authors employed Ratio Analysis and Compound Aggregate Growth rate (CAGR). The authors found that the cement industry performance was good in India during the study period. The

authors concluded that the Cement companies in India have to consolidate in order to become strong, vibrant and also they have to concentrate on export market.

Data analysis and interpretation

Earnings per Share

The profit earned by a company is determined by the EPS from the point of view of ordinary shareholders. Earnings per share

is a portion of profit earned and allocated to the shareholders. Each share would receive certain amount of profits if it is shared and it is called EPS. Higher the EPS higher the profitability of the company. It is calculated by:

$$\frac{\text{Earnings available to equity shareholders}}{\text{No. of equity shares}}$$

Table 1: Table showing Earnings per Share (Rs. in lakh)

| Years | Ultratech Cement | | | Ramco Cement | | |
|---------|------------------|---------------|--------------------|--------------|---------------|--------------------|
| | Net profit | No. of shares | Earnings per share | Net profit | No. of shares | Earnings per share |
| 2015-16 | 2174.65 | 27.44 | 79.25 | 558.26 | 23.8 | 23.46 |
| 2014-15 | 2014.73 | 27.44 | 73.42 | 242.35 | 23.8 | 10.18 |
| 2013-14 | 2144.47 | 27.42 | 78.21 | 137.7 | 23.79 | 5.79 |
| 2012-13 | 2655.43 | 27.41 | 96.88 | 403.65 | 23.79 | 16.97 |
| 2011-12 | 2446.19 | 27.4 | 89.28 | 385.11 | 23.79 | 16.19 |

Source: Secondary data.

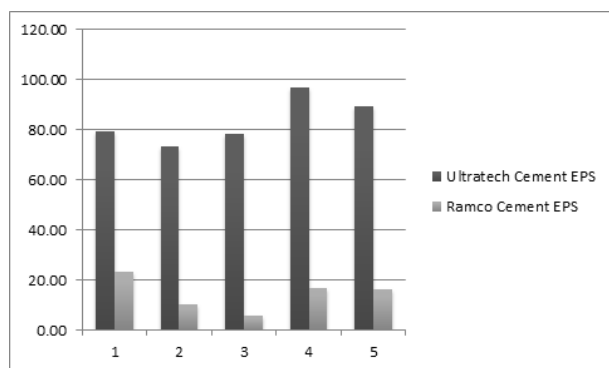


Fig 1: Chart showing earnings per share

Interpretation: From the above data the earnings per share of Ultratech Cement and Ramco Cement companies have been given for the years 2011-12 – 2015-16.

Ultratech Cement: The earnings per share have been increased in the year 2012-13 but there was a sudden fall in the

earnings in the following years. Then there was an increasing trend for the year 2015-16 compare to the year 2014-15.

Ramco Cement: The earnings value of the share has increased in the year 2013-14 then there was a fall in the value of shares. The price went to 5.79 per share in the year 2013-14 but a growth in the value of share in the year 2015-16.

Comparison: The EPS value of shares was increasing in the year 2012-13 but a decrease in the value of shares in the year 2013-14 after this the EPS value for Ultratech cement had fallen further but the value of Ramco cement has increased 76%. Then for the year 2015-16 the increase in the value of shares in Ultratech is only by 7% and in Ramco cement the increase is by 103%.

Comparative income statement

Comparative income statement gives an idea of the progress of business over a period of time. The changes in absolute money values and percentage can be determined to analyze the profitability of the business.

Table 2: Table showing Income statement for the year ended 2011-12 -2012-13 (Rs. in crores)

| Particulars | Ultratech Cement | | | | Ramco Cement | | | |
|--------------------|------------------|-----------|-----------|-------|--------------|----------|---------|-------|
| | 2011-12 | 2012-13 | Inc/Dec | % | 2011-12 | 2012-13 | Inc/Dec | % |
| Revenue | 192357.00 | 213191.00 | 20834.00 | 9.77 | 32567.00 | 38308.00 | 5741.00 | 14.99 |
| Cost of sales | 112922.00 | 121574.00 | 8652.00 | 7.12 | 14093.00 | 16738.00 | 2645.00 | 15.80 |
| Gross profit | 79435.00 | 91617.00 | 12182.00 | 13.30 | 18474.00 | 21570.00 | 3096.00 | 14.35 |
| Advertisement | 8894.00 | 43674.00 | 34780.00 | 79.64 | 7374.00 | 9353.00 | 1979.00 | 21.16 |
| Depreciation | 9629.00 | 10234.00 | 605.00 | 5.91 | 4251.00 | 6705.00 | 2454.00 | 36.60 |
| Interest expenses | 2564.00 | 2523.00 | -41.00 | -1.63 | 1585.00 | 1785.00 | 200.00 | 11.20 |
| Operating expenses | 21087.00 | 56431.00 | 35344.00 | 83.92 | 13210.00 | 17843.00 | 4633.00 | 25.97 |
| Other expenses | 25285.00 | 0.00 | -25285.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other income | 391.00 | 3486.00 | 3095.00 | 88.78 | 309.00 | 2156.00 | 1847.00 | 85.67 |
| Profit before Tax | 33454.00 | 38672.00 | 5218.00 | 18.16 | 5573.00 | 5883.00 | 310.00 | 5.27 |
| Income Tax | 9481.00 | 11791.00 | 2310.00 | 19.59 | 1723.00 | 1846.00 | 123.00 | 6.66 |
| NP | 23973.00 | 26881.00 | 2908.00 | 10.82 | 3850.00 | 4037.00 | 187.00 | 4.63 |

Source: Secondary Data

Interpretation: The following gives the comparative income statement of Ultratech Cement and Ramco Cement for the period of 2011-12 – 2012-13.

Ultratech Cement: The gross profit of the Ultratech cement has increased by 13.30% and the net profit of the 10.82%. Thus it shows the there is an increase in operating expenses.

Ramco Cement: The gross profit of the Ramco Cement 14.35% but the net profit has increased only by 4.63%. Thus the operating expenses have increased in higher rate.

Comparison: The profit has increased though the increase in

operating expenses of Ramco Cement is higher than compared to the increase in Ultratech Cement. Thus the performance of Ultra tech Cement is better than the performance of Ramco Cement.

Table 3: Table showing Income statement for the year ended 2012-13 -2013-14 (Rs. in crores)

| Particulars | Ultratech Cement | | | | Ramco Cement | | | |
|--------------------|------------------|-----------|-----------|--------|--------------|----------|----------|----------|
| | 2012-13 | 2013-14 | Inc/Dec | % | 2012-13 | 2013-14 | Inc/Dec | % |
| Revenue | 213191.00 | 216522.00 | 3331.00 | 1.54 | 38308.00 | 36835.00 | -1473.00 | -4.00 |
| Cost of sales | 121574.00 | 128985.00 | 7411.00 | 5.75 | 16738.00 | 18268.00 | 1530.00 | 8.38 |
| Gross profit | 91617.00 | 87537.00 | -4080.00 | -4.66 | 21570.00 | 18567.00 | -3003.00 | -16.17 |
| Advertisement | 43674.00 | 47513.00 | 3839.00 | 8.08 | 9353.00 | 9321.00 | -32.00 | -0.34 |
| Depreciation | 10234.00 | 11390.00 | 1156.00 | 10.15 | 6705.00 | 8509.00 | 1804.00 | 21.20 |
| Interest expenses | 2523.00 | 3610.00 | 1087.00 | 30.11 | 1785.00 | 0.00 | -1785.00 | 0.00 |
| Operating expenses | 56431.00 | 62513.00 | 6082.00 | 48.34 | 17843.00 | 17830.00 | -13.00 | -0.07 |
| Other expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other income | 3486.00 | 3551.00 | 65.00 | 1.83 | 2156.00 | 633.00 | -1523.00 | -240.60 |
| Profit before Tax | 38672.00 | 28575.00 | -10097.00 | -51.17 | 5883.00 | 1370.00 | -4513.00 | -329.42 |
| Income Tax | 11791.00 | 6448.00 | -5343.00 | -82.86 | 1846.00 | 165.00 | -1681.00 | -1018.79 |
| NP | 26881.00 | 22127.00 | -4754.00 | -21.49 | 4037.00 | 1205.00 | -2832.00 | -235.02 |

Source: Secondary Data

Interpretation: Comparative balance sheet for the year 2012-13 – 2013-14 of Ultratech Cement and Ramco Cement has been done in the above table.

Ultratech Cement: For the year 2013-14 there is a decrease in gross profit as compared to the year 2012-13. But the decrease in net profit has increased thus it shows that there is increase in operating expenses.

Ramco Cement: the gross profit has decreased compared to

the previous year 2012-13. But there is further decrease in the net profit as the operating profit of Ramco Cement continues to increase.

Comparison: Both the companies have decreased in their gross profit and in net profit but the Ultratech Cement have a lesser fall compared to Ramco Cement. So for the year 2013-14 the performance of Ultratech Cement is better than the performance of Ramco Cement.

Table 4: Table showing Income statement for the year ended 2013-14 -2014-15 (Rs. in crores)

| Particulars | Ultratech Cement | | | | Ramco Cement | | | |
|--------------------|------------------|-----------|----------|--------|--------------|----------|----------|--------|
| | 2013-14 | 2014-15 | Inc/Dec | % | 2013-14 | 2014-15 | Inc/Dec | % |
| Revenue | 216522.00 | 243490.00 | 26968.00 | 11.08 | 36835.00 | 30554.00 | -6281.00 | -20.56 |
| Cost of sales | 128985.00 | 145914.00 | 16929.00 | 11.60 | 18268.00 | 16853.00 | -1415.00 | -8.40 |
| Gross profit | 87537.00 | 97576.00 | 10039.00 | 10.29 | 18567.00 | 13701.00 | -4866.00 | -35.52 |
| Advertisement | 47513.00 | 53739.00 | 6226.00 | 11.59 | 9321.00 | 8936.00 | -385.00 | -4.31 |
| Depreciation | 11390.00 | 12034.00 | 644.00 | 5.35 | 8509.00 | 8026.00 | -483.00 | -6.02 |
| Interest expenses | 3610.00 | 5865.00 | 2255.00 | 38.45 | 0.00 | 1908.00 | 1908.00 | 100.00 |
| Operating expenses | 62513.00 | 71638.00 | 9125.00 | 55.39 | 17830.00 | 18870.00 | 1040.00 | 5.51 |
| Other expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other income | 3551.00 | 3919.00 | 368.00 | 9.39 | 633.00 | 2739.00 | 2106.00 | 76.89 |
| Profit before Tax | 28575.00 | 29857.00 | 1282.00 | -35.71 | 1370.00 | -2430.00 | -3800.00 | 156.38 |
| Income Tax | 6448.00 | 8835.00 | 2387.00 | 27.02 | 165.00 | 1147.00 | 982.00 | 85.61 |
| NP | 22127.00 | 21022.00 | -1105.00 | -5.26 | 1205.00 | -3577.00 | -4782.00 | 133.69 |

Source: Secondary Data

Interpretation: The following shows the comparative income statement for Ultratech Cement and Ramco Cement.

Ultratech Cement: The gross profit for the year 2014-15 has increased despite of the fall in the previous year 2013-14. Though the gross profit has increased the net profit has fallen by 5.26% so this shows the increase in the operating expenses.

Ramco Cement: The gross profit for the year 2014-15 has been decreased. But the decreased in net profit by 133.69%.

Comparison: The gross profit has increased from the previous year 2013-14 Ultratech Cement but there is a decrease for Ramco Cement. The Ultratech Cement has decreased lesser than the decrease in Ramco cement.

Table 5: Table showing Income statement for the year ended 2014-15 -2015-16 (Rs. in crores)

| Particulars | Ultratech Cement | | | | Ramco Cement | | | |
|--------------------|------------------|-----------|----------|--------|--------------|----------|----------|--------|
| | 2014-15 | 2015-16 | Inc/Dec | % | 2014-15 | 2015-16 | Inc/Dec | % |
| Revenue | 243490.00 | 255518.00 | 12028.00 | 4.71 | 30554.00 | 36043.00 | 5489.00 | 15.23 |
| Cost of sales | 145914.00 | 149790.00 | 3876.00 | 2.59 | 16853.00 | 13703.00 | -3150.00 | -22.99 |
| Gross profit | 97576.00 | 105728.00 | 8152.00 | 7.71 | 13701.00 | 22340.00 | 8639.00 | 38.67 |
| Advertisement | 53739.00 | 57185.00 | 3446.00 | 6.03 | 8936.00 | 7490.00 | -1446.00 | -19.31 |
| Depreciation | 12034.00 | 13684.00 | 1650.00 | 12.06 | 8026.00 | 8505.00 | 479.00 | 5.63 |
| Interest expenses | 5865.00 | 5599.00 | -266.00 | -4.75 | 1908.00 | 1767.00 | -141.00 | -7.98 |
| Operating expenses | 71638.00 | 76468.00 | 4830.00 | 13.33 | 18870.00 | 17762.00 | -1108.00 | -6.24 |
| Other expenses | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other income | 3919.00 | 2547.00 | -1372.00 | -53.87 | 2739.00 | 6344.00 | 3605.00 | 56.83 |
| Profit before Tax | 29857.00 | 31807.00 | 1950.00 | -59.49 | -2430.00 | 10922.00 | 13352.00 | 122.25 |
| Income Tax | 8835.00 | 8925.00 | 90.00 | 1.01 | 1147.00 | 1449.00 | 302.00 | 20.84 |
| NP | 21022.00 | 22882.00 | 1860.00 | 8.13 | -3577.00 | 9473.00 | 13050.00 | 137.76 |

Source: Secondary Data

Interpretation: The comparative income statement for the year 2014-15 -2015-16 of Ultratech Cement and Ramco Cement has been given below.

Ultratech Cement: The gross profit for the year 2015-16 has increased by 7.71% and the net profit by 8.13%. So the management of operating expenses has decreased and the profit earned has increased.

Ramco Cement: The gross profit and net profit for the year have been increased and the profit for the year is increase highly.

Comparison: The performance of Ramco Cement is higher compared to the Ultratech cement. But compared to the previous year the loss the profit earned and it is multi folded.

Findings and Suggestions

Earnings per Share

- The earnings value of Ultratech Cement and Ramco Cement for the year 2012-13 has been increased by 8.55% and 4.81% respectively. So, the performances of the Cement companies were good.
- For the year 2013-14 there was a great fall in the value of shares of Ultratech Cement and Ramco Cement by 19.24% and 65.88% respectively so in this year the fall in Ramco Cement ids higher.
- In the year 2014-15 Ultratech Cement has further fallen by 6.04% and for Ramco Cement it has increased by 75.99% so the share value of Ramco cement is better than the Ultratech cement.
- The EPS values of shares of Ultratech Cement and Ramco Cement have increased by 7.93% and 130.35% for the year 2015-16. So the increase in Ramco Cement is higher in this year compared to the performance of Ultratech Cement.

Hence, here the decrease and increase in Ultratech is constant but the fall and raise in the value of Ramco Cement is instable.

Comparative income statement

2011-12 & 2012-13

The net profit for Ultratech cement has increased by 10.82% and in Ramco cement by 4.63% thus the performance of Ultratech Cement is higher.

2012-13 & 2013-14

The net profit of both the Companies has fallen but the fall in Ramco Cement is higher than the Ultratech cement.

2013-14 – 2014-15

The net profit has decreased further in Ultratech Cement but there was a net loss in Ramco Cement.

2014-15 & 2015-16

The net profit has risen in both Ultratech Cement and Ramco Cement but the increase in Ramco Cement is high compared to the increase in Ultratech Cement.

Therefore, from the above there is an expected increase in the future years.

Conclusion

The study aims at the financial comparison between Ultratech Cement and Ramco Cement. The financial performances of the Cement companies are compared and the result has been derived. Thus from the above findings the growth of Ultratech Cement is stable and steady but the rise and fall in Ramco Cement is not stable and thus it requires a better management control.

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