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Analysis and Comparative Study of J.K. Cement Ltd and Ultra Tech Cement Limited

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Abstract
The main purpose of this research is to analysis and compares the most populous Indian cement company's J.K. Cement Ltd and Ultra Tech Cement Limited. The methodology is based on a comprehensive literature review of major contribution made in this field of cement industry. The opinions and information contained in this paper are from secondary data studies, published materials and also include author personal opinions. I have taken ratio analysis as tool for the comparison. I found in my research Ultra Tech Cement Limited is much better than the J.K. Cement Ltd in all areas.

Keywords: Liquidity position, Profitability, Turnover Position, Cement Industry.

Introduction
The Indian cement industry is second biggest producer of cement, which touch global standards. The cement industry includes 130 large cement plant sand more than 300 mini cement plants. The cement industry's capacity at the end of the year reached 188.97 million tons which was 166.73 million tons at the end of the year 2006-07.The Indian Cement industry production during April to March 2007-08 was 168.31 million tons as compared to 155.66 million tons during the same period for the year 2006-07.Despatches were 167.67 million tons during April to March 2007- 08 whereas155.26 during the same period. During April-March 2007-08 cement export was3.65 million tons as compared to 5.89 during the same period. Cement industry in India is currently going through a consolidation phase. Some examples of consolidation in the Indian cement industry are: Gujarat Ambuja taking a stake of 14 per cent in ACC, and taking over DLF Cements and Modi Cement; ACC taking over IDCOL; India Cement taking over Raasi Cement and Sri Vishnu Cement; and Grasim's acquisition of the cement business of L&T, Indian Rayon's cement division, and Sri Digvijay Cements. Foreign cement companies are also picking up stakes in large Indian cement companies. Swiss cement major Holcim has picked up14.8 per cent of the promoters' stake in Gujarat Ambuja Cements (GACL).
The Indian cement industry is one of the main beneficiaries of the infrastructure boom. With robust demand and supply, the industry has bright future. The Indian Cement Industry with total capacity of 165 million tones is the second largest after China. Cement industry is dominated by 20 companies who account for over 70% of the market. Individually no company accounts for over 12% of the market. The major players like L&T and ACC have been quiet successful in narrowing the gap between demand and supply. Private housing sector is the major consumer of cement (53%) followed by the government infrastructure sector. forecasted to grow by over 22% by 2009-10 from 2007-08.Among the states, Maharashtra has the highest share in consumption at12.18%,followed by Uttar Pradesh, In production terms, Andhra Pradesh is leading with 14.72% of total production followed by Rajasthan. Cement production grew at the rate of 9.1 per cent during 2006-07 over the previous fiscal's total production of 147.8 MT (million tons). Due to rising demand of cement the sales volume of cement companies are also increasing & companies reporting higher production, higher sales and higher profits.
The net profit growth rate of cement firms was 85%.Cement industry has contributed around 8% to the economic development of India. Outsiders (foreign players) eyeing India as a major market to invest in the form of either merger or FDI (Foreign Direct Investment). Cement industry has a long way to go as Indian economy is poised to grow because of being on verge of development

Economic Trends
India is among the fastest-growing economies in the world, with close to 8% annual growth since 2002, and expected to be sustained for the next 5 years as well. Inflation rate remained below 5% between 2001 to 2007, but has since increased, touching 8.75% in May 2008. The business regulatory environment is fairly open, and follows free-market competition principles. All quantitative restrictions on trade were removed in 2001, except for a few highly sensitive goods. Trade as a % of GDP has risen from 13% in 1991 to nearly 30.2% in 2005-06. The total cumulative foreign direct investment (FDI) received into India up to March 2007 was US$ 54.63 billion, of which Italy's share is about 1.2%. The monetary unit of India is Indian Rupee (1 Indian Rupee = 100 paisa). The exchange rate of Indian Rupee is Euro 1 = Rs. 63.20 and US$ 1 = Rs. 40.45 (March 2008 - Reserve Bank of India).

Demographics
India is a unique market on account of its diversity in age, income, and urban-rural demographics. Nearly 58 million households, comprising 32.3% of India's dwelling units, live in urban areas. Nearly 38% of urban households are in middle and higher income strata, and only 14% of rural households have similar income levels.

- **Income Classification**

Though the population is more than 1.1 billion, the real consuming class of 300 million people outnumbers several of the world's large markets in terms of market potential. Of these, around 150 million people (2 million very rich and 30 million rich households) represent the consuming potential, particularly for lifestyle goods and services.

- There are close to 80,000 high net worth Individuals in India, with saving and Assets exceeding US$1 million.
- At least 50,000 households buy premium cars every year (priced at US$ 30,000 and above)

The history of the cement industry in India dates back to the 1889 when a Kolkata-based company started manufacturing cement from Argillaceous. But the industry started getting the organized shape in the early 1900s. In 1914, India Cement Company Ltd was established in Porbandar with a capacity of 10,000 tons and production of 1000 installed. The World War I gave the first initial thrust to the cement industry in India and the industry started growing at a fast rate in terms of production, manufacturing units, and installed capacity. This stage was referred to as the Nascent Stage of Indian Cement Company. In 1927, Concrete Association of India was set up to create public awareness on the utility of cement as well as to propagate cement consumption.

The cement industry in India saw the price and distribution control system in the year 1956, established to ensure fair price model for consumers as well as manufacturers. Later in 1977, government authorized new manufacturing units (as well as existing units going for capacity enhancement) to put a higher price tag for their products. A couple of years later; government introduced a three-tier pricing system with different pricing on cement produced in high, medium and low cost plants.

Cement Company, in any country, plays a major role in the growth of the nation. Cement industry in India was under full control and supervision of the government. However, it got relief at a large extent after the economic reform. But government interference, especially in the pricing, is still evident in India. In spite of being the second largest cement producer in the world, India falls in the list of lowest per capita consumption of cement with 125 kg. The reason behind this is the poor rural people who mostly live in mud huts and cannot afford to have the commodity. Despite the fact, the demand and supply of cement in India has grown up. In a fast developing economy like India, there is always large possibility of expansion of cement industry.

Cement Production and Growth

Domestic demand plays a major role in the fast growth of cement industry in India. In fact the domestic demand of cement has surpassed the economic growth rate of India. The cement consumption is expected to rise more than 22% by 2009-10 from 2007-08. In cement consumption, the state of Maharashtra leads the table with 12.18% consumption, followed by Uttar Pradesh. In terms of cement production, Andhra Pradesh leads the list with 14.72% of production, while Rajasthan remains at second position.

The production of cement in India grew at a rate of 9.1% during 2006-07 against the total production of 147.8 MT in the previous fiscal year.

During April to October 2008-09, the production of cement in India was 101.04 MT comparing to 95.05 MT during the same period in the previous year. During October 2009, the total cement production in India was 12.37 MT compared to a production of 11.61 MT in the same month in the previous year. The cement companies are also increasing their productions due to the high market demand. The cement companies have seen a net profit growth rate of 85%. With this huge success, the cement industry in India has contributed almost 8% to India's economic development.

Technology Up-Gradation

Cement industry in India is currently going through a technological change as a lot of up gradation and assimilation is taking place. Currently, almost 93% of the total capacity is based entirely on the modern dry process, which is considered as more environment-friendly. Only the rest 7% uses old wet and semi-dry process technology. There is also a huge scope of waste heat recovery in the cement plants, which lead to reduction in the emission level and hence improves the environment.

Objective of the Research

To find out the liquidity position, profitability and turnover position of both the company (J.K. Cement Ltd and Ultra Tech Cement Limited) for the mentioned period i.e. 2011-2015.

Financial Ratios of J.K. Cement Ltd

Table 1. 1: Financial ratios of J.K. Cement Ltd for the years 2011-2015

S. No	Name Of The Ratio	2015	2014	2013	2012	2011	TOTAL	Average
1	Current Ratio	.83	.89	.88	1.03	1.00	4.63	0.926
2	Quick Ratio	.78	.73	.75	.83	.77	4.08	0.816
3	Debt equity ratio	1.47	1.42	.78	.84	.98	5.49	1.098
4	Inventory turnover ratio	7.59	5.16	6.31	7.02	6.52	32.6	6.52
5	Debtor Turnover Ratio	26.67	24.64	29.27	35.25	29.37	145.2	29.04
6	Gross Profit	9.34	8.47	14.58	15.07	7.76	55.22	11.044
7	Return on capital employed	9.30	7.74	18.39	18.48	8.60	62.51	12.502
8	Earnings per share	22.44	13.88	33.40	25.36	9.16	104.24	20.848
9	Dividend Per Share	4	3	6.5	5	2	20.5	4.1

Financial Ratios of Ultra Tech Cement Limited

Table 1.2: Financial ratios of Ultra Tech. Cement Limited for the years 2011-2015

S. No	Name Of The Ratio	2015	2014	2013	2012	2011	Total	Average
1	Current Ratio	.90	1.57	1.25	1.49	1.37	6.58	1.316
2	Quick Ratio	.59	1.16	.88	1.04	.99	4.66	0.932
3	Debt Equity Ratio	.39	.30	.36	.32	.39	1.76	0.352
4	Inventory Turnover Ratio	35.94	37.43	35.02	35.41	33.89	177.69	35.538
5	Debtor Turnover Ratio	17.44	18.23	14.23	12.14	9.98	82.02	16.404
6	Gross Profit	13.21	13.45	17.65	17.58	13.74	75.63	15.126
7	Return On Capital Employed	14.14	14.41	21.43	22.73	19.56	92.27	18.454
8	Earnings Per Share	73.42	78.20	96.85	89.25	51.24	388.96	77.792
9	Dividend Per Share	9	9	9	8	6	41	8.2

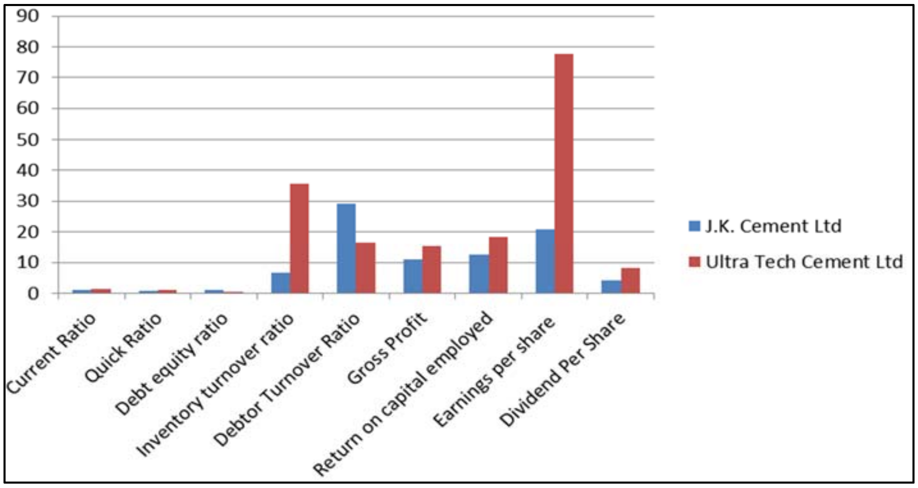

Fig 1: Five years average financial ratio of J.K Cement and Ultra Tech Cement Limited

Current Ratio

This ratio is used to assess the firm capability to meet it short term liability on time. According to the principles, a current ratio of 2:1 is considered to be an ideal ratio. It shows that current assets of the organization should at least, be double of its current liabilities. The higher the ratio better it is for the organization, because the firm will be able to pay it current liabilities on time more easily. The reason of fixing 2:1 as the ideal ratio is that current assets include stock, debtors etc from which full amount cannot be realized in case of need. So half the amount is realized from the current assets on time, the firm can easily meet its current liability on time. 4.63 6.58

If current ratio is less than ideal ratio that is 2:1 it indicates lack of liquidity and shortage of working capital. But a much higher ratio, even it is good for the short term creditors but not good for the firm. A much higher ratio shows the poor investment policies of the management of the firm. It is not better for the firm because of following reason:-

1) An inventory might piling up because of poor sales
2) Huge amount is locked up in debtors due to inefficient collection policy.
3) The cash or bank balances is not utilized it is might be lying idle.

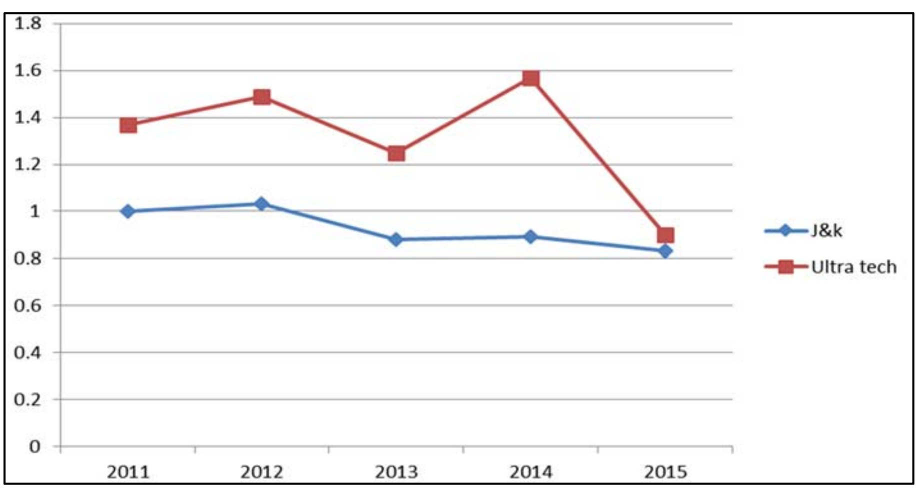

Fig 2: Current Ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

While browsing the secondary data from money control.com it was observed that current ratio of different plant is distinct from each other with respect to their current assets and current liabilities. the above line graph of current ratio of both the plant shows the current ratio of J.K. Cement Ltd and Ultra Tech Cement Limited year wise during from 2011 to 2015 current ratio of J.K. Cement Ltd is.83 in 2015,.89 in 2014,.88 in 2013 1.03 in 2012, 1.00 in 2011. The above graph also shows the current ratio for Ultra Tech Cement Limited for mentioned time period i.e. for the year.90 in 2015, 1.57in 2014, 1.25 in 2013, 1.49 in 2012 and 1.37 in 2011.so now we can say that current ratio of Ultra Tech Cement Limited is much better in each mentioned time period because higher the ratio better it is for the organization so in current ratio Ultra Tech Cement is better than J.K. Cement.

Quick Ratio: Quick ratio shows whether the firm is in the position to pay its current liability very quickly such as within a month or immediately As such the quick ratio is calculated by dividing liquid assets by current liabilities.

Liquid assets mean those assets which yield cash very quickly. All the current assets except stock and prepaid expenses are included in liquid assets. An ideal quick ratio is 1:1 if it is more it is considered to be better.This ratio is a better test of short term financial position of the company than the current ratio, as it considered into those assets which can be easily and readily converted into cash.

Quick ratio is a more rigorous test of liquidity than the current ratio and when used together with current ratio, this ratio is gives a better picture of the short term financial position of the firm

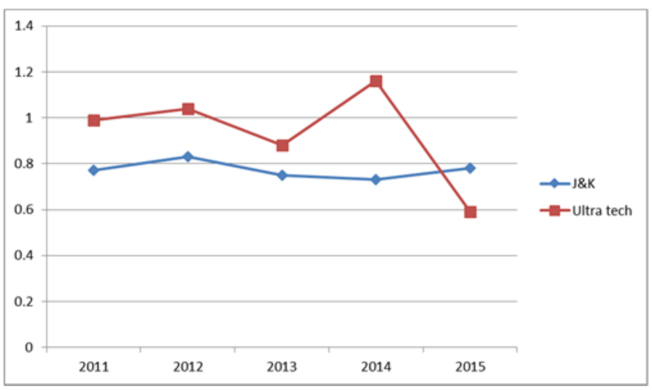

Fig 3: Quick Ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

The above line graph of quick ratio of J.K. Cement Ltd and Ultra Tech Cement Limited shows year quick ratio of both the companies during from 2011 to 2015. If one looks at the graph quick ratio of Ultra Tech Cement Limited is.59 in 2015, 1.16 in 2014,.88 in 2013, 1.04 in 2012,.99 in 2011 and the above graph also shows the statistic of J.K. Cement Ltd for mentioned time period i.e..78 in 2015,.73 in 2014,.75 in 2013,.83 in 2012,.77 in 2011.

This ratio indicates that Ultra Tech Cement Limited is better than the J.K. Cement Ltd in each year because in each year quick ratio of Ultra Tech Cement Limited is higher than Ultra Tech Cement Limited.

Debt Equity Ratio: This ratio shows the relationship between long term debts and shareholder funds. It shows the proportion of funds which are acquired by long term borrowing in comparison to shareholders funds.

This ratio is calculated to assess the capability of the form to meet its long term liabilities. Generally, debt equity ratio is 2:1 is considered safe. If the ratio is more than this ideal ratio it indicates a rather risky financial position from the long term point of view, as it shows that more and more funds invested in the organization are provided by long term lenders. A high Debt equity ratio is a danger signal for long term lenders. Formula of Debt Equity ratio = Debt/equity.

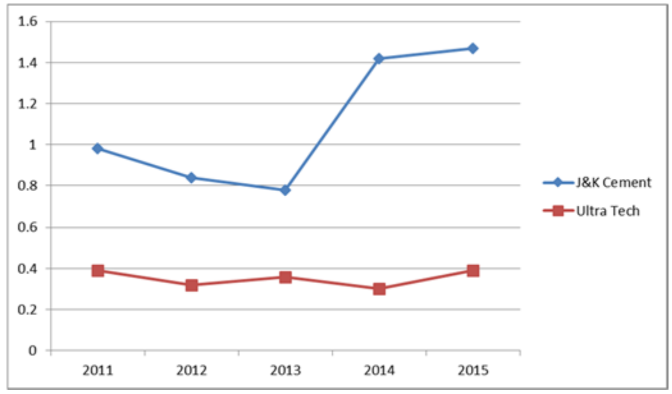

Fig 4: Debt Equity Ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

Inventory Turn Over Ratio: This ratio shows whether stock has been efficiently used or not. It shows the speed with which the stock is rotated into sales or the number of times the stock is turned into sales during the year. The higher the ratio, better it is because it shows that stock is selling quickly.In a business where stock turnover ratio is high goods can be sold at a low margin of profit yet the profitability may be quite very high.

A low stock turnover ratio shows that stock does not sell quickly and remains lying in the go down for the longer time period. This increase the storage cost, blocking of funds and losses on account of goods becoming obsolete or unsalable.

This ratio is used for comparing the efficiency of sales polices of two firms doing same business. The stock policy of the management of that firm, whose stock turnover ratio is higher, will be treated as more efficient.

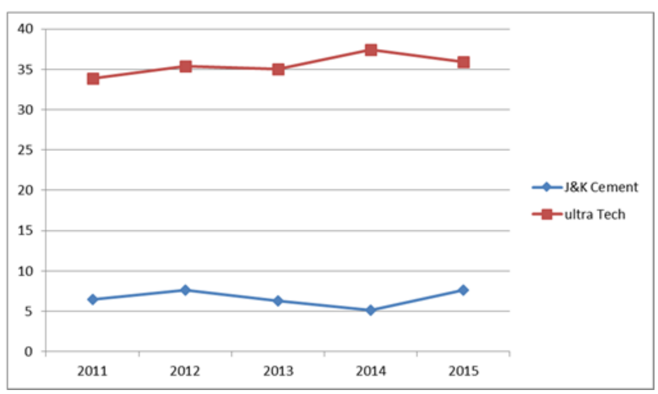

Fig 5: Inventory turnover ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

The above line graph of J.K. Cement Ltd and Ultra Tech Cement Limited shows year wise inventory turnover ratio for the mentioned time period. Inventory turnover ratio of J.K. Cement Ltd for the 2011 it was 6.52 times, in 2012 it was 7.62 times, in 2013 it was 6.31 times, in 2014 it was 5.16 times, in 2015 it was 7.59times.The above line graph also shows the inventory turnover ratio of Ultra Tech Cement Limited for the mentioned time period i.e. for the year 2011 it was 33.89 times, in 2012 it was 35.41times, in 2013 it was 35.02times, in 2014 it was 37.43 times, in 2015 it was 35.94times. So now we can say that ultra tech is far better than J.K. Cement Ltd, because higher the ratio better it is since it indicates that stock is selling quickly. Ultra tech is selling its goods very quickly than J.K. Cement Ltd.

Debtor Turnover Ratio: This ratio indicates the speed with which the amount is collected from the debtors. The higher the ratio, better it is since it indicates that amount from debtors is collected more quickly. The more quickly the debtors pay, the less the risk from bad debts, and so lower the expenses of collection and increase in the liquidity of the firm. A lower debtor turnover ratio will shows the inefficient credit sales policy of the management. It means that credit sales have been made to customers who do not deserve much credit. It is very difficult to set up a standard for this ratio. It fully depends upon the policy of the management and nature of the industry.

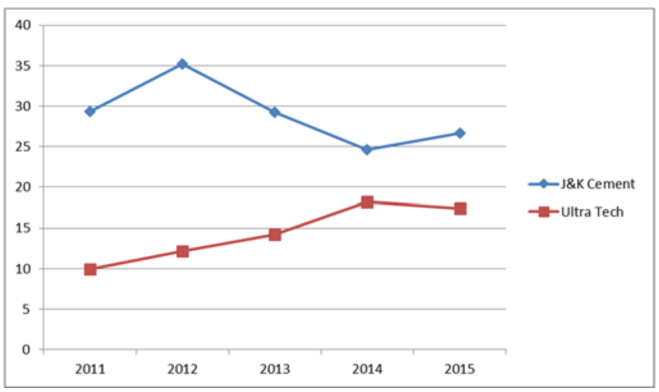

Fig 6: Debtor turnover ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

The above line graph of J.K. Cement Ltd and Ultra Tech Cement Limited shows year wise debtor turnover ratio for the mentioned time period. Debtor turnover ratio of J.K. Cement Ltd for the 2011 it was 29.37 times, in 2012 it was 35.25 times, in 2013 it was 29.27 times, in 2014 it was 24.64 times, in 2015 it was 26.67times.The above line graph also shows the debtor turnover ratio of Ultra Tech Cement Limited for the mentioned time period i.e. for the year 2011 it was 9.98times, in 2012 it was 12.14 times, in 2013 it was 14.23 times, in 2014 it was 18.23 times, in 2015 it was 17.44times. So now we can say that J.K. Cement Ltd is far better than Ultra Tech Cement Limited in this debtor turnover ratio, because higher the ratio better it is since it indicates that amount from Debtor is being collected more quickly by J.K. Cement Ltd than Ultra Tech Cement Limited.

Gross Profit: This ratio measures the margin of profit available on sales. The higher the gross profit ratio, the better it is. No ideal ratio is fixed for this ratio, but gross profit ratio should be adequate enough not only to cover the operating expenses but also to provide for depreciation, interest on loans, dividends and creation

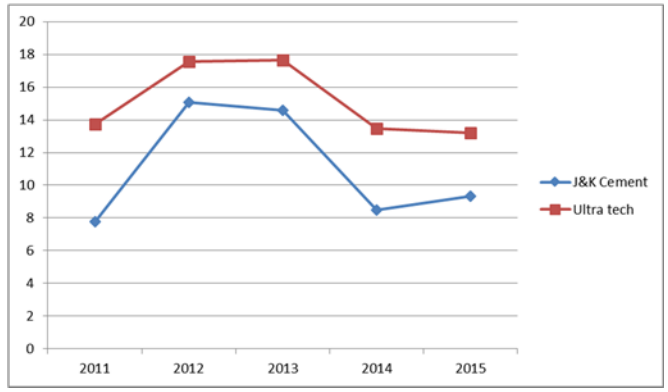

Fig 7: Gross Profit ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

The above line graph of J.K. Cement Ltd and Ultra Tech Cement Limited shows year wise Gross profit ratio for the mentioned time period. Gross Profit ratio of J.K. Cement Ltd for the 2011 it was 7.76, in 2012 it was 15.07, in 2013 it was 14.58, in 2014 it was 8.47, in 2015 it was9.34. The above line graph also shows the gross profit ratio of Ultra Tech Cement Limited for the mentioned time period i.e. for the year 2011 it was 13.74, in 2012 it was 17.58, in 2013 it was 17.65, in 2014 it was 13.45, and in 2015 it was 13.21. So now we can say that Ultra Tech Cement Limited is far better than J.K. Cement Ltd, because higher the ratio better it is.

Return on Capital Employed: This ratio indicates the overall profitability of the business. It is calculated by comparing the profit earned and the capital employed to earn it. The term Capital Employed here refers to long term fund deployed in the enterprise. Long term fund means total of shareholders' funds and long term loans.

Return on Capital Employed = profit before Interest, tax, dividends/Capital Employed*100

Since the capital employed includes shareholders' funds and long term loans, interest paid on long term loans will not be deducted from profits while calculating this ratio.

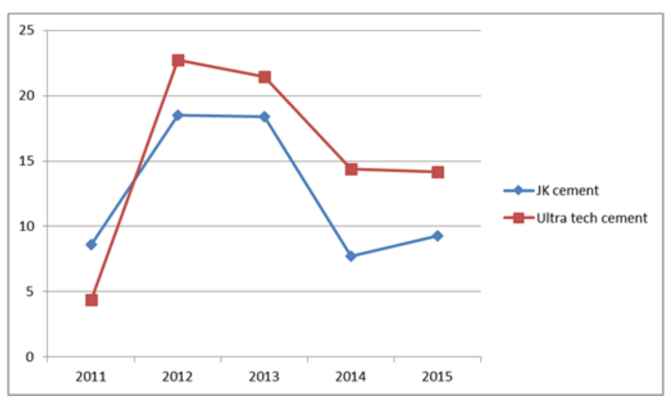

Fig 8: Return on capital employed ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

The above line graph of J.K. Cement Ltd and Ultra Tech Cement Limited shows year wise Return on Capital Employed ratio for the mentioned time period. Return on Capital Employed ratio of J.K. Cement Ltd for the 2011 it was 8.60, in 2012 it was 18.48, in 2013 it was 18.39, in 2014 it was 7.74, in 2015 it was 9.30. The above line graph also shows the Return on Capital Employed ratio of Ultra Tech Cement Limited for the mentioned time period i.e for the year 2011 it was 19.56, in 2012 it was 22.73, in 2013 it was 21.43, in 2014 it was 14.41, in 2015 it was 14.14. So now we can say that Ultra Tech Cement Limited ii better than Ultra Tech Cement Limited, because higher the ratio better it is.

Earnings per Share: This ratio is find out the profit available to equity shareholders on a per share basis. Profits left after payment of tax and preference dividend are available to equity shareholders. This ratio is calculated by dividing the net profit available to equity shareholders by number of equity shares issued:

Earnings per Share: Net profit- Dividend on preference Shares/ Number of Equity Shares
This ratio is helpful in the determination of the market price of the equity share of the company. The ratio is also helpful in estimating the capacity of the company to declare dividends on equity shares

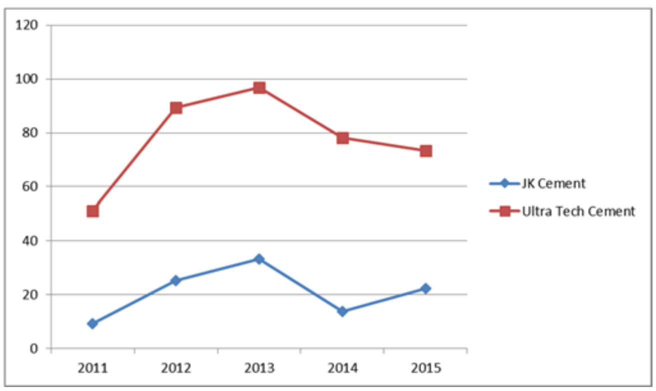

Fig 9: Earning per share ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

The above line graph of J.K. Cement Ltd and Ultra Tech Cement Limited shows year wise Earning Per Share ratio for the mentioned time period. Earnings per share ratio of J.K. Cement Ltd for the 2011 it was 9.16, in 2012 it was 25.36, in 2013 it was 33.40, in 2014 it was 13.38 in 2015 it was 22.44. The above line graph also shows the Earning Per Share of Ultra Tech Cement Limited for the mentioned time period i.e. for the year 2011 it was 51.24, in 2012 it was 89.25, in 2013 it was 96.85, in 2014 it was 78.20, in 2015 it was 73.42 So now we can say that Ultra Tech Cement Limited is far better than J.K. Cement Ltd, because Earning Per Share of Ultra Tech Cement Limited is much better than the J J.K. Cement Ltd.

Dividend per Share Ratio: Profit remaining after payment of tax and preference dividend is available to equity shareholders. But all of these are not distributed among them as dividend. Out of this profit, a portion is retained in the business and after that remaining is distributed among equity shareholders as a dividend. D.P.S is the dividend distributed to equity shareholders divided by the number of equity shares:

D.P.S = Dividend paid to Equity Shareholders/Numbers of Equity Shares

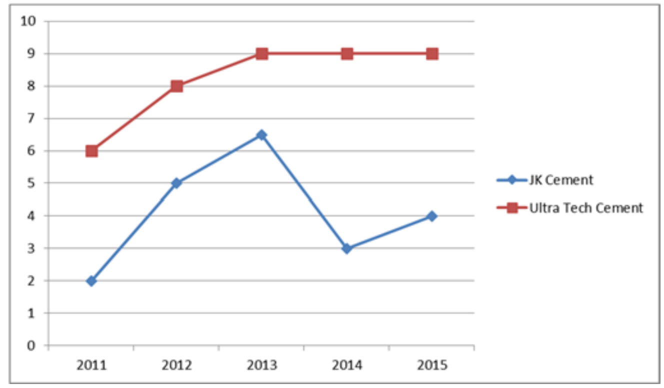

Fig 10: Dividend per share ratio of J.K. Cement Ltd and Ultra Tech Cement Limited (Year 2011-15)

The above line graph of J.K. Cement Ltd and Ultra Tech Cement Limited shows year wise Dividend Per Share ratio for the mentioned time period. Dividend per share ratio of J.K. Cement Ltd for the 2011 it was 2, in 2012 it was 5, in 2013 it was 6.5, in 2014 it was 3 in 2015 it was 4. The above line graph also shows the Dividend Per Share of Ultra Tech Cement Limited for the mentioned time period i.e. for the year 2011 it was 6, in 2012 it was 8, in 2013 it was 9, in 2014 it was 9, in 2015 it was So now we can say that ultra tech ii far better than J.K. Cement Ltd, because Dividend Per Share of Ultra Tech Cement Limited is much better than the J.K. Cement Ltd.

Concluding Remarkjs: The ratio analysis of J.K. Cement Ltd and Ultra Tech Cement Limited is clearly a strategic decision, but it is a highly complex issue. We can says that the relationship between two figures, expressed in arithmetical terms is called a ratio in other words a ratio is simply one number expressed in terms of another. If it found by dividing one number in to other. The cross sectional analysis of this real data from money control.com. Gives a reflection on ratio analysis of two cement plants that J.K. Cement Ltd and Ultra Tech Cement Limited that showed the ultra tech cement limited is far better than J.K. Cement Ltd in almost all the areas. This paper analyzed the casual ratio analysis between the ultra tech cement limited and J.K. Cement Ltd in cement industry for the period between 2010 to 2015. This statistics refers to conclude that Ultra Tech Cement Limited is much better than the J.K. Cement Ltd in almost all the areas.

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