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Comparative financial analysis: (A case study of associated cement company v/s Jaypee cement company)

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Abstract

It has been accepted fact that the long term growth of economy depends equally on all the sectors viz primary, secondary and tertiary. But it has also been realized that secondary sector give impetus to rest of the sectors for an accelerated growth and development. This paper focuses on the cement industry of the country and made an analysis of two cement giants namely JPC and ACC. Ratio analysis has been used to draw the inferences from the secondary sources of data. It has been found that short term financial position of JPC is better than ACC in the year 2011 and 2012. While as long tern financial position of ACC is good enough than JPC.

Keywords: Ratio analysis, JPC Ltd, ACC Ltd., infrastructural development, growth agent

1. Introduction

Every sector of the economy is playing an important role in the economic development of the country since times immemorial. The economy is broadly categorized into three sectors viz agricultural sector (Primary secote), Industrial sector (Secondary Sector) and service sector or Teritiary Sector. Each of the sector is playing a vital role and is significant for the economic development of every country. Now a days industrial sector has shaped the economic destiny of various developing countries especially India. With regard to industrial sector, cement industry provides the basic foundation of infrastructural development and providing social overheads in the country. At present the big challenge before the planners of the economy is infrastructural development which can be achieved only through the presence of strong cement industry which provides the basic raw material for construction of roads, bridges and buildings etc. Cement is the most essential raw material in any kind of construction activity. Accordingly cement industry plays a crucial role in the infrastructural development of the country. Given the vast geographical size and massive population of the country, various construction activities undertaken by the central Govt., State Govt., Public Sector Undertakings and other organizations, including private sector generate huge demand for cement. In addition, provision for housing is the first and foremost requirement of every household and therefore, first private cement industry was laid down in the year 1914, when it first started working in Porbundar Gujrat. The Indian cement Industry is consisted of 20 large cement plants and 365 mini cement plants with an installed capacity of 140 million tonnes. The Indian cement Industry has been categorized into five cement producing zones viz; North Zone, south zone, west zone, East zone and Central zone. Among all these five cement producing zones the two cement producers Viz (ACC) and(JPC) of central zone is the concern of the study based on the following grounds.

The top 3 companies in terms of cement production in central zone produced 70% of the total cement produce in 2011, out of a total of atleast 8 companies, which represants an oligopolistic market. Major players are Jaiprakash Associates Ltd., Acc. Ltd. and century Textiles & Inds. Ltd., and ultra tech Cement Ltd. Over last 6 years the top 4 companies have captured around 80% production of cement, with virtually the same names appearing the top 4; the following pie diagramas will depict the stated position of cement production of top producers in the country.

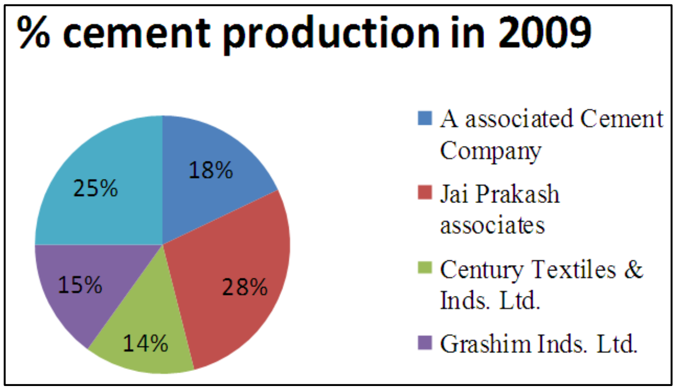

Fig 1

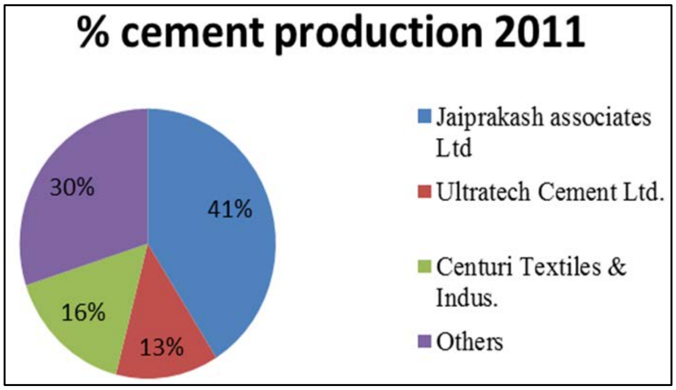

Fig 2

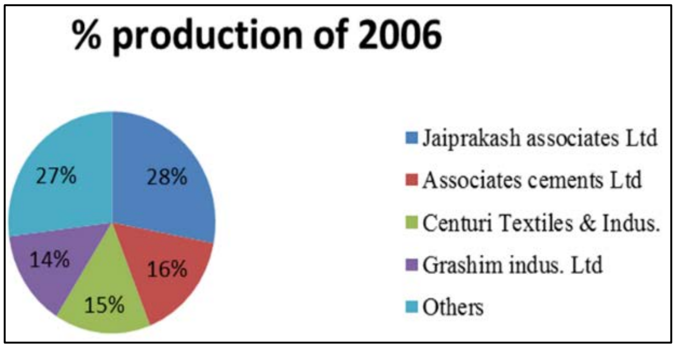

Fig 3

Jaypee group is the third largest cement producerin the country. The groups cement facilities are located in the Satna cluster (MP), which has one of the highest current production growth rates in India. The group produce special blend of Portland Pozzolana cement under the brand name 'Jaypee Cement' (PPC). Its cement division currently operates modern, computerized process control cement plants with an aggregate capacity (commissioned /Under commissioned) of 28.80 mntpa in FY' 12. The company is in the midst of capacity expansion of its cement business in Norther, Southern, Eastern, and Western parts of country and hass achieved 41.40 mntpa in total cement capacity (commissioned /Under commissioned) in FY' 13 with Captive Thermal Power plants totaling 672 MW. Keeping pace with the advancements in the IT industry, all the 260 cement dumps are networked using TDM/TDMA VSATs along with a dedicated hub to provide 24x7 connectivity between the plants and all the 120 points of cement distribution in order to ensure "track – the – truck" initiative and provide seamless integration. This initiative is the first of its kind in the cement industry in India. In the near future, the group plans to expand its cement capacities via acquisition and Greenfield additions to maximize economies of scale and build on vision to focus on large size plants from inception. In addition to Jaypee Cement Company another cement gaint of Indian Cement Industry is (ACC) Associated cement company which is India's foremost manufacture of cement and ready mix concrete with a countrywide network of factories and marketing offices. Established in 1936, ACC has been a pioneer and trend-setter in cement and concrete technology. ACC's brand name is synonymous with cement and enjoys a high level of equity in the Indian market. It is the only cement company that figures in the list of Consumer Super Brands of India. Among the first companies in India to include commitment to environment protection as a corporate objective, ACC has won several prizes and accolades for environment friendly measures taken at its plants and mines. The company has also been felicitated for its acts of good corporate citizenship.

The purpose of the study is to highlight the financial soundness of both the companies and also an attempt will be made to compare their financial results in order to identify which of the two companies is performing better.

2. Review of Literature

The research work, surveys and studies that deal with the cement industry and the subject matter under consideration had been examined and analysed. The important among them with regard to the cement industry conducted by research scholars, Govt. and private instructions are:

1. Chakraborty, S. K. and Reddy, K. Malla (1973) [5] *"Inter firm comparision in Indiancement Industry" published in "chartered accountant journal" (vol.21).* In this research paper the scholar has made an attempt to compare the performance of fifteen cement companies of Indian Cement Industry, the important among the mare; Ambuja Cements, Associated Cement Company, Birla group of Cements, Jaypee Cements etc. in addition to this an attempt has been made to present the status of the companies in the Industry.
2. Katja Schumacher and Jayant Sathaye (1999) [7] in this research paper titling *"Indiancement Industry: productivity, energy efficiency and carbon emissions".* The research paper was submitted to Govt. of USA supported by the environmental science division, office of biological and environmental research (OBER), office of energy research, US department of energy. In this research work the researcher attempted to highlight the various factors responsible forincrease or downfall in Indian cement industry. Further, the area of opinion that the Indian cement sector is moving towards world's best technology, which will result in fewer carbon emissions and more efficient energy use. However, substantial further energy savings and carbon reduction still exist.
3. Selvam, M, Vanitha, S. and Babu, M. (2004) [9] *"A study of financial health of cement industry –"Z" score analysis"* published in *"Management Accounts Journal" (vol. 39).* In this research paper the research scholar stepped to examine the financial strength of Indian cement industry with the sample companies under consideration. Furthermore the research scholar tried to analyse the competitive strength of the sample companies under the study on the basis of the data collected from company's published sources.
4. Burange, LG. and Shruti, Yamini (2009) [4] Ph. Dthesis submitted to *"university of Mumbai, department of economics"* titling *"performance of Indian cement Industry*: *the competitive landscape"* The focus of this work is the performance of Indian cement Industry in some key areas which are: Cement, History, Evolution, Decontrol, Performance, Dynamics. The Cement Industry is experiencing a boom on account of the overall grouth of the Indian economy primarily because of increased industrial activity, flourishing real estate business, growing construction activity and expanding investment in the infrastructure sector. The performance of the industry under different policy regimes, truly establishes that decontrol of the industry and liberalization of the economy has led to remarkable improvement in the indicators such as installed capacity, capacity utilization, percaptia consumption and exports. The industry experienced complete shift in the technology of production, from wet process to dry process. The competitiveness among the firms in Indian cement Industry has also been evaluated. For the year 2006-07, out of the sample of seventeen firms (90.21%of the total market share), about47% have recorded above industry average performance in the overall competitiveness index. The marginal difference between the competitiveness of

different firms reveals the tough competition in the Industry.
5. Bhayani Snajay (2010) [3] *"Determinants of profitability in Indian cement Industry: An economic analysis"* published in *"South Asian Journal of Management" (vol.17)*. In this research paper the researcher throws light on the overall profitability of the cement Industry. An Attempt is made to compare the performance of various industries of Indian economy with the performance of cement Industry to show the current position and status of cement industry in Indian economy. In the light of review of the literature I find the area which needs attention was the financial aspect of two cement producing giants of central zone to analyses whether the two companies can increase the installation capacity to produce more cements to capture the market demand as the industry is not fulfilling the domestic demand.

3. Objectives of the study
The study shall be conducted with the following objectives:
1. To analyse the short term financial position of both the companies.
2. To analyse the solvency position of both the companies.
3. To compare both short term and long term financial results.
4. To present the findings on the basis of analysis of data.

4. Research methodology
The current research paper is an empirical study based on secondary data collected from the annual reports of the above mentioned two cement giants. For the analysis of the data so collected will be compiled, tabulated and logical conclusions will be drawn by applying the accounting techinique of ratio analysis.

5. Analysis of data
Table 1: The following table depicts the short term financial position of both cement producing companies.

Year	Liquidity Ratios	ACC Ltd	JPC Ltd.
2011	Current Ratio	1.01:1	2.32:1
2011	Acid Test Ratio	0.75:1	2.03:1
2012	Current Ratio	0.83:1	1.36:1
2012	Acid Test Ratio	0.79:1	1.20:1

6. Interpretation
1. Looking at the above table; the short term financial position of ACC LTD. In the year
2. 2011 as per current ratio is not satisfactory as the calculated value is below the standard range which is 2:1and in the year 2012 the current ratio of ACC LTD. is becoming more alarming as it stood at1.83:1 which is matter of concern. Now, if it is seen from the point of acid test ratio, the short term financial position of ACC Ltd. is not still good in both the years of 2011and 2012,but in the year 2012 ACC Ltd. has modern attempt to accelerate its quick liquidity position as the ratio has increased by 5.33%in comparison to last year.
3. The short term financial position of Jaypee cements is excellent in the years of 2011 2.32:1while as in the year 2012 it seems a matter of concern for jaypee cements as the current ratio is below the standard range which is 1.36:1 but it should have been 2:1 or above. Talking about the quick cash position of the Jaypee cement by applying the acid test ratio, the quick cash position of the company is more than satisfactory as the normal range for acid test ratio is 1:1and Jaypee cement is above the target level and its ratio stands at 2.03:1 and 1.20:1
4. On the basis of short term financial position, if the two companies are to be compared the 2nd company viz: Jaypeecement is far better than ACC Ltd. So the investors, suppliers intending to invest for a shorter period of time, necessarily invest in Jaypee cements in comparison to that of ACC Ltd so far as the liquidity position of two companies in the last two years is taken into consideration.

Table 2: The following table show sthelongterm /solvency position of both cement producing gaints.

Year	Solvency Ratios	ACC Ltd	JPC Ltd.
2011	1.Debt Equity Ratio	0.07	2.09
	2.Debt To Total Assets Ratio	0.03	0.53
	3.PropritoryRatio	0.87	0.32
2012	1.Debt Equity Ratio	0.02	1.46
	2.Debt To Total Assets Ratio	0.01	0.44
	3.PropritoryRatio	0.91	0.40

On the basis of the above calculated ratios, the following points can be concluded for ACC Ltd.

1. **Debt equity ratio:** ACC Ltd has used little proportion of debt in comparison to equity share capital in their capital structure in the year 2011 that is up to the extent of 7% but in the year 2012 it has further improved this position by bringing this ratio from 0.07:1 to 0.02:1. So it can be said that the company is enough solvent and is on the right track so far as the long-term financial position is concerned.
2. **Debt to total assets ratio:** It shows that only3% of the debt has been used by ACC Ltd. to finance its assets. In comparison to 2011 the position in the year 2012 is much better because the company has reduced the debt proportion from 0.03 to 0.01, again on this front company is showing better results.
3. **Propritory ratio:** This ratio is showing that the long term financial position of ACC Ltd. is very sound as the company has used 87% proprietor's funds in the total capital employed in the year 2012 where the company used91%proprietor's funds in the total capital employed which shows good future prospects of the company.
   Long term financial position of Jaypee cements on the basis of solvency ratios:
4. **Debt equity ratio:** The ratio shows that Jaypee cements has used at least equity with debt that is nearly 0.91 paise in comparison to 2.09 rupees of debt in the year2011 but in the year 2012 the company ha seduced this level to a great extent and is used 0.74 paise of equity in comparison to 1.26 rupees which is still a matter of concern.
5. **Debt to total assets ratio:** Looking from this ratio the company has 0.53% debt to finance the assets of the company in the year 2011 while as in the year 2012 the company has used less proportion of debt approx. 0.44% to finance the assets of the company.
6. **Propritory ratio:** This ratio shows that the company has used 0.32% of owners funds in the total capital employed

in the year 2011 while as in the year 2012 the company has increased the proportion of owners in the total capital employed which stood at 0.40 percent.

7. Conclusion

In order to carry on the business successfully, it is mandatory to have a good liquidity and solvency position that is to have good short-term financial position and long-term financial position. It must be noted that a business having good solvency position does not mean that its liquidity position will also be good and vice versa.

On the basis of findings it can be concluded that short-term financial position of Jaypee cements is better than that of ACC Ltd. in the financial year 2011and 2012, while as the long-term financial position of ACC Ltd. is good enough against the long-term financial position of Jaypee cements in both the years. Hence, ACC Ltd has good long-term financial position and can discharge it's all long-term liabilities without having any negative impact on the functioning of the business. But the company will face problem while meeting its day to day expenditures because the liquidity position is not as good as expected. On the other hand the short-term financial position of Jaypee cement is excellent and will not face shortage of funds to meet routine expenditures but the company has weak long-term financial position and may not be able to discharge its permanent obligations without having the effect on the operations.

8. References

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