Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, General Impact Factor : 2.5442, Volume 08, No. 04, October, 2018, pp. 74-80

PROFITABILITY ANALYSIS: A COMPARATIVE STUDY OF ACC LTD. AND AMBUJA CEMENT LTD.

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ABSTRACT

Profitability is a measure of overall organizational efficiency in achieving the set-out goals. It is generally done with reference to capital employed or sales. Profitability analysis is considered for the purpose of planning the optimum level of activity which determines whether or not the firm profiting. The profitability may be calculated through profitability ratio such as gross profit ratio, net profit ratio, operating profit ratio, return on investment ratio, return on capital employed ratio. The nature of the study is descriptive and analytical research which is conducted on the basis of secondary data. The present study analyzes the profitability of ACC Ltd. and Ambuja Cement Ltd for the past five years i.e. from 2012-2013 to 2016-17 The study brings out some important information and analyses to reach into conclusion.

KEYWORDS: *Profitability, Ratio, Organizational Efficiency, Operating Profit Ratio.*

Introduction

The cement industry is very prominent in India. Basically, the industry comes under the large scale industry segment. India is the second largest cement producing country in the world. The cement industry in our country has a pivotal role in the overall growth of the economy. Apart from contributing GDP, the industry provides employment opportunity for the millions of job seekers. ACC Limited is India's one of the largest manufacturers of cement and ready mixed concrete. The company has 17 modern cement factories and more than 50 ready mixed concrete plants. ACC has a unique track record of innovative research, product development, and specialized consultancy services. Generally, ACC is the first cement company in the country to start Bulk Cement, especially for large customers.

Ambuja Cements is one of the most popular brands in the western India. The company was formerly known as Gujarat Ambuja Cement Limited. Generally, it is a major cement producing company in India. Now, the company is a part of the global conglomerate Lafarge Holcim. Currently, Ambuja Cement has a cement capacity of 29.65 million tons with five integrated cement manufacturing plants and eight cement grinding units across the country. Profitability plays a vital role in survival of a business. Profit is an important element to boost up business activities. But the measurement of the profit and profitability occupies important place in the financial analysis. The profitability analysis is the most important tools for knowing the financial strength and earning capacity of ACC Ltd and Ambuja Cement Ltd. in comparisons.

Objectives of the Study

The following are the specific objectives of the study area:

- To study the profitability of selected Cement Industries in India
- To evaluate the comparative profitability scores as against the selected Cement Industries in India
- To give necessary suggestions and conclusions of this study.

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Research Methodology

The present study is mainly based on secondary data. The study concentrates on Cement Industry. Thus two companies are selected namely ACC and Ambuja Cement Limited. Data has been obtained from the annual reports of ACC and Ambuja Cement ltd. under study for five years. It is presented with the help of graphs, charts and tables etc. The study period is limited, from 2012-13 to 2016-17. For the analysis, available profitability ratios are calculated and Motaals test has been applied to make comparison of profitability between the two sample companies under the present study.

Limitations of the Study

The study suffers from certain limitations which are stated as follows:

- The study has been conducted over a very limited period of five years only.
- The study is based on secondary data.
- The study is only limited two companies. Hence, it will reflect only a partial view of the
- Overall profitability in the Indian cement industry.
- The study is based on consolidated financial statements of the selected company, which may leave some grounds of error.

Profitability Analysis

Profitability is the earning capacity of a business firm. The primary objective of a business undertaking is to earn profit. Profitability is a primary factor on which managerial decisions are based. From this view, point, "Profitability" analysis is considered more important than analysis of "profit" itself. Therefore; profitability has more managerial uses than profit. These help in decision making and internal accounting in the fields of sales, marketing and product management for a company. For the purpose of measuring overall profitability of the business, the following measures are generally applied: Gross Profit Ratio, Net profit Ratio, Operating Profit Ratio, Return on Investment Ratio, Return on Capital Employed Ratio.

Gross Profit Ratio

This ratio establishes relationship between gross margin and net sales. So this ratio is also known as gross margin ratio .A high gross profit ratio is good for management, shareholders and also for the creditors as it satisfies their respective interest .G/P ratio also works as a guide to management in controlling administrative and selling expenses and for adoption of effective inventory control system.

Gross Profit Ratio= Gross Profit/Net Sales*100

Gross profit = Net Sales - Cost of goods sold

Table 1: Gross Profit Ratio of Selected Cement Industries in India under Study

	Gross Profit Ratios	
Year	**ACC Ltd.**	**Ambuja Cement Ltd**
2012-2013	56.71	65.84
2013-2014	57.48	65.67
2014-2015	57.12	66.37
2015-2016	59.45	68.49
2016-2017	59.98	65.10
Average	58.15	66.29
S.D	1.31	1.31
C.V	2.25	1.97

From the above table it can be observed that the gross profit of ACC and Ambuja Cement showed a fluctuating trend during the period of study. The gross profit of ACC Ltd. has 56.71% in 2012-2013 which increased to 57.12% in 2013-2014 and again slight decreased to 57.12% in 2014-2015 but it showed a decreasing trend in 2015 -2016 to 2016-2017 from 59.45% and 59.98% . The gross profit of Ambuja Cement Ltd. has 65.84% in 2012-2013 which decreased to 65.67% in 2013-2014 but it showed a increasing trend in 2012-14-2015 to 2015-2016 from 66.37% to 68.49% and again decreased to 65.10% in 2016-2017.As compared to Ambuja Cement Ltd., the average profit is lower in ACC Ltd. (58.15) and coefficient of variation is high (2.25) which shows more variability. This is represented graphically below:

Net Profit Ratio

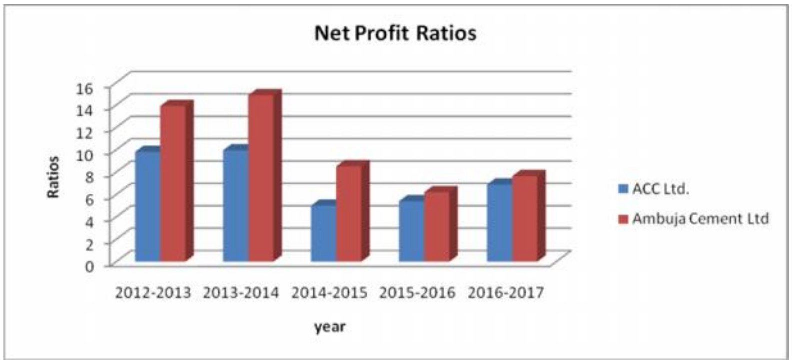
The relationship between net profit and net sales is established through the Net Profit Ratio. This ratio is known as profit margin ratio. It is regarded as the index of operational efficiency. It is natural to prefer a higher net profit ratio.

Net Profit Ratio=Net Profit (After Tax)/Net Sales*100

Table 2: Net Profit Ratio of Selected Cement Industries in India under Study

	Net Profit Ratios	
Year	**ACC Ltd.**	**Ambuja Cement Ltd**
2012-2013	9.81	13.91
2013-2014	9.95	14.87
2014-2015	5.01	8.52
2015-2016	5.40	6.20
2016-2017	6.89	7.64
Average	7.41	10.23
S.D	2.36	3.90
C.V	31.84	38.13

From the above table it can be observed that the net profit of ACC and Ambuja Cement showed a fluctuating trend during the period of study. The net profit of ACC Ltd. has 9.81% in 2012-2013 which increased to 9.95% in 2013-2014 and again decreased to 5.01% in 2014-2015 but it showed a increasing trend in 2014 -2015 to 2016-2017 from 5.01% and 6.89% . The gross profit of Ambuja Cement Ltd. has 13.91% in 2012-2013 which increased to 14.87% in 2013-2014 but it showed a decreasing trend in 2014-2015 to 2015-2016 from 8.52% to 6.20% and again increased to 7.64% in 2016-2017.As compared to Ambuja Cement Ltd., the average profit is lower in ACC Ltd. (7.41%) and coefficient of variation is lower (31.84) which shows lower variability. This is represented graphically below:



Operating Profit

Operating profit is an important indication of profitability. Operating profit is the profit earned out of operating activities. It is the amount of operating income net of operating cost.

Operating Profit Ratio=Operating Profit/Net Sales*100

Operating Profit=Operating Income –Operating Cost

Table 3: Operating Profit Ratio of Selected Cement Industries in India under Study

	Operating Profit Ratios	
Year	**ACC Ltd.**	**Ambuja Cement Ltd**
2012-2013	14.58	17.87
2013-2014	12.84	19.28
2014-2015	13.03	16.27
2015-2016	12.70	26.25
2016-2017	14.37	21.92
Average	13.50	20.32
S.D	0.90	3.91
C.V	6.65	19.26

From the above table it can be noted that the operating profit of ACC Ltd showed decreasing cum increasing trend in period of study. The operating profit of it has 14.58% in 2012-13 which decreased to 12.84% in 2013-14, increased to 13.03% in 2014-15, decreased to 12.70% and again increased to 14.37%.On the other hand, the operating profit of Ambuja Cement Ltd showed increasing cum decreasing trend in period of study. The operating profit of it has 17.87% in 2012-13 which increased to 19.28% in 2013-14, decreased to 16.27% in 2014-15, highly increased to 26.25% in 2015-2016 and again decreased to 21.92% in 2016-2017 . The average operating profit ratio and coefficient of variation are lower as comparison to 2nd company. The diagrammatic representation of operating profit is as under:

Return on Investment

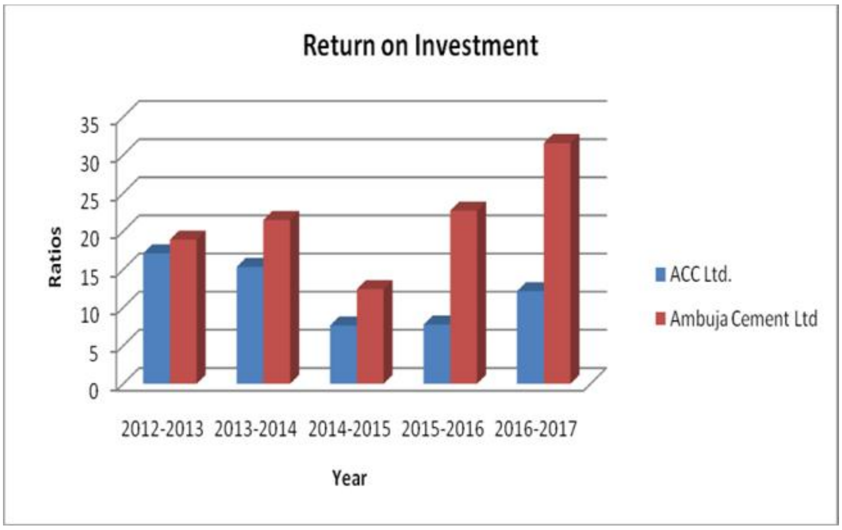
Return on investment is called the primary ratio and the most important of all profitability ratios. This ratio is the primary criteria to arrive at investment decision by the shareholders as well as by the management. It indicates the rate of return on the resources of the company that are invested. Here, investments means only taking Fixed Assets.

Return on Investment=Net Profit (After Tax)/Investment*100

Table 4: Return on Investment Ratio of Selected Industries in India under Study

	Return on Investment Ratios	
Year	**ACC Ltd.**	**Ambuja Cement Ltd**
2012-2013	17.12	18.92
2013-2014	15.33	21.49
2014-2015	7.66	12.42
2015-2016	7.76	22.72
2016-2017	12.15	31.57
Average	12.00	21.42
S.D	4.30	6.90
C.V	35.86	32.34

From the above table it is observed that the return on investment of ACC Ltd .showed decreasing trend in the initial years but it converted into increasing trend in the last years of study period. The return on investment of it has 17.12% in 2012-2013 which decreased to 7.66% in 2014-2015 and increased to 12.15% in 2016-2017.On contrary, Ambuja Cement Ltd's return on investment showed a fluctuating trend during the study period. It's ratio has 18.92% in 2012-2013 which increased to 21.49% in 2013-2014,decreased to 12.42% in2014-2015,increased to22.72% in 2015-2016 and lastly highly increased to 31.57% in 2016-2017.The average return of 2nd co. is compared to 1st co. is higher which is satisfactory and the coefficient of variation of it is lower ,which is also satisfactory. The diagrammatic representation of operating profit is as under:



Return on Capital Employed or Net Worth

Return on Capital Employed ratio is based on the Capital employed concept of investment. This ratio measures the relationship between net profit (after tax) and capital employed. It is a good measure of profitability.

Return on Capital Employed=Net profit (after tax)/Net worth*100

Net worth=Equity Share Capital + Reserve & Surplus

Table 5: Return on Capital Employed or Net Worth of Selected Ratio of Cement Industries under Studies

	Return on Capital Employed Ratios	
Year	**ACC Ltd.**	**Ambuja Cement Ltd**
2012-2013	14.02	13.48
2013-2014	14.22	14.71
2014-2015	7.02	7.84
2015-2016	6.97	7.35
2016-2017	9.78	9.67
Average	10.40	10.61
S.D	3.58	3.33
C.V	34.40	31.34

Observation on ACC Co shows that a fluctuating trend's ratio of return on Capital Employed during the study, which is increased from 14.02 in 2012-13 to 14.22 in 2013-14 but fell up to 6.97 in 2015-16 but and again rose up to 9.98 in 2016-17 The average return on Capital Employed and coefficient of variation are 10.40 and 34.40 respectively. In case of Ambuja Cement Ltd, the ratio begins at 13.48 in 2012-13 and fell up to 14.71 in 2013-14 and decreased up to 7.35 and again rose up to 9.67 in 201617.Its average is 10.61 and coefficient of variation is 31.34 which is more better than first, since c.v is lower. The trend of the ratio can be diagrammatically presented below:

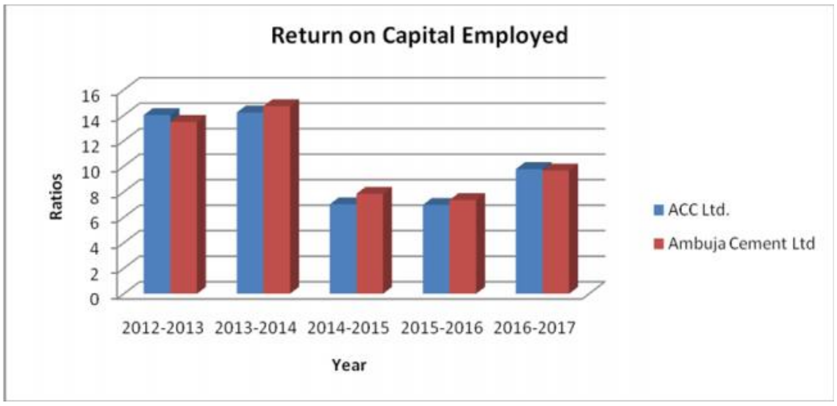


Table 6: Determine the Composite scores in order of Profitability of the selected Cement Industries under Study (Motaals Test)

Statement of Ranking in Order of Profitability of the Cement Industries				
Company / Profitability Measure	ACC Ltd.Co		Ambuja Cement Co.	
	Mean	**Ranking as per Mean**	**Mean**	**Ranking as per Mean**
G.P Ratio	58.15	2	66.29	1
N.P.Ratio	7.41	2	10.23	1
Operating ProfitRatio	13.50	2	20.23	1
ROI	12.00	2	21.42	1
ROCE	10.40	2	10.61	1
Total(A)		10		5
Combined score as per average		2		1
	C.V(%)	Ranking as per C.V	C.V(%)	Ranking as per C.V
G.P	2.25	2	1.97	1
N.P	31.84	1	38.13	2
O.P	6.65	1	19.26	2
ROI	35.86	2	32.34	1
ROCE	34.40	2	31.34	1
Total(B)		8		7
Combined score as per consistency		2		1
Grand Total(A+B)		18		12
Ultimate Rank		2		1

The above statement exhibits that Ambuja Cement Ltd which has first according to the average values of the given profitability indicators and second according to their C.V.has a combined score of 12 in the composite ranking which indicates a better position of Ambuja Cement Ltd. as compared to ACC Ltd.

Summary of the Findings

- Gross profit ratios are higher in Ambuja Cement Ltd. as compared to ACC Ltd. The variations of the same over the years for the same companies are not significant as from observation.
- Net profit ratios are also higher in Ambuja Cement Ltd. as compared to ACC Ltd. But the coefficient of variation is quite high
- The operating profit ratios are higher in Ambuja Cement Ltd. as compared to ACC Ltd. The Coefficient of variation is very high.
- The Return on Investment (ROI) is higher in 2nd Company as compared to1st Company. The variations over the years of the ratio are very high in 1st Company and low in 2nd company. This is true also in the case of Return on Capital Employed.

- Under Motaals Test, Ambuja Cement Ltd. has been assigned higher order rank as compared to ACC Ltd...

Profit is an important element to boost up business activities. It is a must for survival of business firm. The study clearly indicates that profitability of both the companies have a fluctuating trend during the period of the study. Ambuja Cement Ltd, which has come up as the best of the two under the present study (other being ACC Ltd) also has much disparity in profitability. . It can be concluded that both the companies have been earning profits yet on the profitability score, there should be less variability. The profitability analysis is the most important tools for knowing the financial strength and earning capacity of the companies in comparisons

Suggestions

Following points can be suggested for betterment:

- Under Gross Profit Ratio, as compared to Ambuja Cement Ltd,the average profit is lower in ACC Ltd. (58.15) and coefficient of variation is very high (2.25) and it is suggested that the management of the companies should control the variance in future by proper policy and plans.
- Under Net Profit Ratio, the average net profit of ACC Ltd. is (7.41) which is not satisfactory and coefficient of variation is high (38.13) in Ambuja Cement Ltd. and it is suggested that the management of the Companies should maintain the stable policy in operating and non-operating level and also control the variance in future.
- Under Operating Profit Ratio, the average operating profit of ACC Ltd. is (13.50) which is not satisfactory and coefficient of variation is so much high (19.26) in Ambuja Cement Ltd. and it is suggested that the management of the Companies should increase the operating efficiency and also control the variance in future.
- The return on investment of both the companies showed a fluctuating trend during the period of study and it is suggested that the management of the companies should control the highly fluctuated activities affected by the capitalization.
- As observed in Return on Equity Ratio, it is suggested for the management of both the companies to prepare a stable policy of shareholder equity and particularly in case of ACC control the variance in future for better equity management.

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