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Analysing the Cementing of the Profit in the Indian Cement Industry

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ABSTRACT

Profit is the prima facie object of every business. In the words of Lord Keynes, "Profit is the engine that drives the business enterprise". A business needs profit not only for its existence but also for the expansion and diversification. "Profit is the barometer of the success of the business.

The profit margin of the industry was thin as well as fluctuating in proportion to sales and the total asset turnover ratio of the industry was poor and it was the reason of lesser return on investment. The incompetent use of fixed assets, plant and machinery could be observed from the concerned turnover ratios affecting the profitability of the companies of this industry badly. One more thing should be taken care of that the profitability of the private sector companies was much better than that of public sector and government owned companies which was mainly on account of high operational and financial inefficiencies of these public sector companies. The financial operation ratio of industry was satisfactory but return on shareholders' equity was not up to mark. To check the high operating costs, the cost control techniques should be used extensively, and other steps be taken to reduce the operational costs, which will definitely increase the profitability.

For the growth of the domestic market, the industrial policy had to be framed in such a way that it generates more demand for Cement. Investment in infrastructure like railways, ports, highways and other key sectors like power, housing and petroleum refining had to get priority. Fiscal incentives in terms of excise and other levies need to be rationalised. The lower price of Cement will trigger demand and the loss of revenue in cement would be offset by additional volume. Producers were also looking for innovative methods to control the costs and to raise the quality level to be competitive.

In all the profitability position of the cement company was typically structured, where the gross profit position was found to be strong in the cement companies the return of sales, capital employed, and the total assets was not so much attractive.

KEY WORDS: Profit, Profitability, Cement Industry, Ratio, India

INTRODUCTION

Profit is the prima facie object of every business. In the words of **Lord Keynes**, "Profit is the engine that drives the business enterprise". A business needs profit not only for its existence

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but also for the expansion and diversification. “Profit is the barometer of the success of the business.

The term ‘profitability’ should be distinguished from ‘profits’. Profits refer to the absolute quantum of the profits whereas the profitability refers to the ability to earn profits. Profitability is the relative measure – it indicates the most profitable alternative profit, on the other hand, is an absolute measure – it indicates the overall amount of profit earned by transactions. Profitability is taken into consideration in judging the degree of operational efficiency of the management and controlling operations and performance.

It is also used to study the ‘relative efficiency’ with the other firms. An analysis of the profitability reveals how the profit position stands as a result of total transactions made during a year. Such analysis is particularly interesting to suppliers of funds who can evaluate their investment and take decision accordingly. On the other hand, profit ratios are equally beneficial to the management because these ratios reflect the efficiency of the enterprise as whole.

Generally, two major types of profitability ratios are calculated:

1. Profitability in relation to sales.
2. Profitability in relation to investment.

OBJECTIVE OF STUDY

- To study the Profitability Position of Cement Industry of India.
- To study the effect of various components of Profit on it.

ANALYSIS OF PROFITABILITY

Profit is the prima facie object of every business. Profit earning is considered essential for the survival of business. The ultimate task of management is to maximize the profits. It is the measuring rod of the return from any use of a given investment.

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails to make sufficient profits. Even in totally planned economies, profit criteria has been accepted as the basis of efficiency. The term ‘profitability’ should be distinguished from ‘profits’. Profits refer to the absolute quantum of the profits whereas the profitability refers to the ability to earn profits.

A business enterprise is able to discharge its obligations to the various segments of a society only through profits. Besides management of the company, creditors, owners, employees and government are also interested in the profitability of the firm.

The overall profitability is measured in relation to sales, assets, capital employed and net worth. Dupont system of analysis has also been considered as an important tool for evaluating profitability.

The profitability of Indian Cement Industry has been measured by computing and analyzing various profitability ratios.

1. GROSS PROFIT TO NET SALE RATIO

The ratio of industry registered a fluctuating trend. The ratio of Andhra Cement was always lower than the industry. The ratio of JK Cement and Shree Cement was highest followed by ACC Cement. The ratio of Ambuja Cement was higher than Binani Cement but lower than

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ACC. In this manner the ratio of JK Cement and Shree Cement was found to be highest whereas the ratio of Andhra Cement was very poor in comparison to its competitive units. Highly asymmetrical trend in the gross profit ratio of the industry as well as all the companies chosen for the study show that the gross profit position is very inconsistent and that is mainly the result of the overall managerial inefficiency, high fluctuation in the cost of raw material consumed and increasing rate of manufacturing expenses.

2. OPERATING NET PROFIT TO NET SALE RATIO

The ratio of the industry showed a fluctuating trend during the whole study period but reached to minimum level of 12 % in the last financial year. In the starting year of study period the reasons responsible for higher ratio was lower input costs which increased in the later years of study period. Comparatively Shree Cement, ACC Cement and Binani Cement exhibited good position. Performance of JK Cement was not satisfactory in the context of whole of industry because of high input costs and increase in interest and depreciation. But the performance of Andhra Cement was quite poor as it has a Negative Ratio.

3. PRE-TAX PROFIT TO NET SALES RATIO

ACC Ltd. Has the starting pretax profit to net sales ratio at the level of 25% which remained same in the next year 2016-17 but reduced to 23% in the year 2017-18 on account of fall in the amount of EBT. In the year 2018-19 the ratio augmented to 28% due to increase in the amount of earnings before tax, but it reduced in the next year to 18% as a result of reduction in the EBT with the reduction in the amount of sales. In case of Ambuja Cement the EBT to Net Profit ratio was at the level of 29% which increased to the level of 33% in the year of 2016-17 on account of reduction of EBT, this trend continued in the next two years also when the ratio declined to 25% and 21 % respectively as a result of lower combined effect of decrease in the amount of turnover and reduction in the pretax profit. As shown in the earlier profitability ratios the ratio of pre tax profit to net sales showed a very poor ratio in case of Andhra Cement. The Pre tax profit to Net sales ratio in the beginning of the study period was -53% as a result of Pre tax Loss in the company. This position improved in the next year and the ratio reached to 15% in the year 2016-17 but declined a little to 13% as the EBIT of this year fell and the trend continued in the next year as a result of pre tax loss this ratio declined to -49% in the last year of the research because of the high loss before tax. As the profitability position of the Andhra Cement was poor than that of the industry, it proved to be the worst company from the profitability point of view. The pre tax profit to net sales ratio of Binani Cement ltd was 24 % in the inception of the study period which augmented to 25% in the next year as a result of higher level of EBT in this year. The pre tax profit to net sales ratio of 2017-18 was only 12% as a result of lowering EBT and the same has been increased in the next year on account of huge increase in the amount of pre tax profit. The ratio of pre tax profit to net sales of JK Cement demonstrated a fluctuating trend. It started with a level of 20% only and reached to 22% in the next year as a result of enhanced EBT. In the year 2017-18 the ratio slipped to 14% as a result of low EBT which improved by a % in the next year of research. But in the lst year of study the ratio of pre tax profit to net sales declined very sharply and reached to the lowest level of 3% because of heavy decrease in the amount of EBT. Shree Cement being the last company of the research study also presented the ebb and flow trend during the whole of the period of study. The ratio of 12% was noticed in the starting of the study period which augmented to 19 % in the next year because of the increase in the EBT, it further improved to 27% in the next year because of the tremendous increase in the amount of EBT, after which this ratio declined to 24% in the year 2018-19 and further reduced to 3% in the coming year as a result of sharp fall in the amount of EBT.

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4. NET PROFIT AFTER TAX TO NET SALES RATIO

An ebb and flow trend was observed in the ratio of the industry. In case of ACC Cement net profit after tax to net sales ratio of the first year was 21% which continued in the next year but reduced to 17% in the year 2017-18 as a result of falling amount of EAT. In the year 2018-19 the ratio reached the level of 20% as the net profit after tax for the company improvised but the ratio declined in the next year to 15%on account of huge decline in the net profit after tax, which was however higher than the industry ratio. Ambuja Cement being the highest average of net profit after Tax Company demonstrated the net profit after tax to net sales ratio at 24% in the year of inception of the study. This ratio strengthened to 31% in the coming year on account of decrease in sales. The ratio declined to 17% in the 2018-19 due to comparatively huge increase in the amount of sales which continued in the next year and kept the ratio at 17% much higher than the industry average. Andhra cement on the other hand had very weak net profit after tax to net sales ratio on an average. The company has very strong net profit after tax to net sales ratio of 40% in the inception of the study period which drastically fell down to the level of 17% in the next year due to heavy fall in the amount of EAT it further reduced to 10% in the next year because of the same reason and augmented to 16% in the year 2018-19 because of the enhancement in the amount of EAT. In the last year of the study period the ratio reached to the level of -38% on account of net loss to the company. Binani cement on the other hand depicted a poor ratio of 14 % in the beginning of the study period which improved to 18%, slightly higher than the ratio of starting. It further reduced to 10% because of fall in the amount of net profit in the year 2017-18, though the industry as well as average of the company was better than the company’s ratio. The ratio enhanced in the next year to 15% which was further deteriorated to 5% in the last year of study on account of large reduction in the amount of Profit after tax. JK cement depicted a poor ratio of 13 % in the beginning of the study period which improved to 17%, slightly higher than the ratio of starting. It further reduced to 9% because of fall in the amount of net profit in the year 2017-18, though the industry as well as average of the company was better than the company’s ratio. The ratio enhanced in the next year to 11% which was further deteriorated to 3% in the last year of study on account of large reduction in the amount of Profit after tax. Shree Cement on the other hand has net profit after tax to net sales ratio of 13% in the starting of the study period and slipped a little to 12% even after the increase in EAT but the effect was absorbed by the reduction in the sales. In the year 2017-18 the ratio improvised to the point of 21% due to huge amount of EAT. After that the ratio declined to 19% and 6% respectively as a result of vary large amount of sales in comparison to EAT of the company.

5. RETURN ON TOTAL CAPITAL EMPLOYED

As revealed from the table the ratio of industry was declining during the whole of the period under study. Ratio of ACC Cement was rising in the first two years and thereafter started declining to 22%. The average of the company was 25 %. The ratio was 31 % in 2015-16. It slightly improved in 2016-17 with an increase in profits and it reduced in the next year and touched the level of 22 % due to nearly double increase in profits. The ratio registered marginal incline in 2018-19 even in spite of increased profits. In Ambuja Cement the ratio was above the company’s average of 25 % in the year 2015-16 and increased by 1% in the financial year 2016-17 and then it was below the company’s average for the next two years but in the last year it again reduced below the company’s average. The visible reason behind it was the declining EAT with inclining amount of Capital employed. In case of Andhra Cement there was a loss after tax but before interest in the last year of the period under study but in inception of the period the ratio was 27% which reduced to 20% in the next year

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because of lower EAT with higher capital employed. It further reduced sharply to 8% in the next year and remained same till the next year on account of lower EAT with fluctuating capital Employed. In the last year of study the reported loss brought the ratio to -4%. The table reveals that the ratio of Binani Cement was below than the company's average of 11 % in the initial year of the research and then it reached high to a level of 15% due to comparatively higher increase in the amount of EAT. In the year 2017-18the return of capital employed fell down to 9% again due to lower EAT. In the year 2018-19 the return of capital employed approximately doubled on account of almost triple EAT, but the ratio fell down rigorously to 5% in the last year of study because of very significant downfall in the amount of reported PAT, it also was weaker than the industry in this year. An ebb and flow trend was observed in JK Cement during the whole of the period under study. Against the company's average of 10 % the ratio remained higher in the first two years and it was the result of continuously increasing profits which was followed by comparatively lesser growth in the Net Worth and loans and advances. In the year 2018-19 of the study period the ratio bumped up as against the increase in the Net Worth and deferred liabilities. In the end of the study period the company the return on total capital employed fell down to 2% because of almost three times fall in the amount of EAT. Shree Cement also has a moderately poor return of capital employed. Beginning with 13 %, it remained constant in the next year but in the year 2017-18 the ratio touched the level of 22% on account of almost double PAT and the ratio declined to 18% due to higher capital employed than that of PAT of the company. In the last year of study the ratio touched the lowest level of 5% because of very low amount of PAT. The return on capital employed was fluctuating during the whole of the study period. As revealed from the table the ratio of industry was fluctuating during the whole of the period under study.

6.NET PROFIT AFTER TAX TO TOTAL ASSETS RATIO

As revealed from the table the ratio of industry was fluctuating during the whole of the period under study. Ratio of ACC Cement was rising in the first two years and thereafter started declining to 22%. The average of the company was 25 %. The ratio was 31 % in 2015-16. It slightly improved in 2016-17 with an increase in profits and it reduced in the next year and touched the level of 22 % due to nearly double increase in profits. The ratio registered marginal incline in 2018-19 even in spite of increased profits. In Ambuja Cement the ratio was above the company's average of 25 % in the year 2015-16 and increased by 1% in the financial year 2016-17 and then it was below the company's average for the next two years but in the last year it again reduced below the company's average. The visible reason behind it was the declining EAT with inclining amount of Total Assets. In case of Andhra Cement there was a loss after tax but before interest in the last year of the period under study but in inception of the period the ratio was 27% which reduced to 20% in the next year because of lower EAT with higher Total Assets. It further reduced sharply to 8% in the next year and remained same till the next year on account of lower EAT with fluctuating Total Assets. In the last year of study the reported loss brought the ratio to -4%. The table reveals that the ratio of Binani Cement was below than the company's average of 11 % in the initial year of the research and then it reached high to a level of 15% due to comparatively higher increase in the amount of EAT. In the year 2017-18 the return of Total Assets fell down to 9% again due to lower EAT. In the year 2018-19 the return of Total Assets approximately doubled on account of almost triple EAT, but the ratio fell down rigorously to 5% in the last year of study because of very significant downfall in the amount of reported PAT, it also was weaker than the industry in this year. An ebb and flow trend was observed in JK Cement during the whole of the period under study. Against the company's average of 10 % the ratio remained higher in the first two years and it was the result of continuously increasing profits which was followed by comparatively lesser growth in the Net Worth and loans and

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7. RETURN TO SHAREHOLDERS' EQUITY

The return of shareholders' equity was 39% in the ACC Cement which reduced to 35% in the next year on account of comparatively huge increase in the amount of the shareholders equity. In the year 2017-18 the ratio reduced sharply to 25% on account of lower PAT, it improved in the year2018-19 to 27%because of the huge improvement in the amount of PAT. Ambuja Ltd. On the other hand has a ratio of 43% in the beginning of the study period which fell down to 38 % in spite of the increase in the amount PAT simultaneously with the higher increase in the shareholders equity. After this the ratio continuously declined to 25% in the year 2017-18, 19% in the year 2018-19 and 17% in the last study period because of combined effect of fall in EAT and increase in the equity. Andhra cement which has very poor profitability has 158 % Return on Shareholders equity in the inception of the study period which declined to 73 % in the next year and reached to 25% in the year 2017-18 and remain constant in the next year due to lower EAT with higher shareholders equity. In the end of the research period the ratio stood negative on account of negative profit (Loss) Binani Cement on the other hand moderate return on shareholders' equity as the average of the company stood at 31% and the ratio at starting was at 32% which augmented in the next year to 42% and slipped down to 23% in the year 2017-18. It further improved to 42 % and reduced to 16% in the next years showing an ebb and flow trend in all. JK cement ltd which has the weakest return to shareholders equity on average has 22% in the inception and it increased to 25% in the next year then it reduced sharply to 12% due to decrease in PAT with increase in net worth. In the year 2018-19 the ratio reached at the level of 17% and slipped down sharply to 5% in the last year of study period. Shree cement on the other hand better return to shareholders equity than that of its competitive companies. It has an average of 34% and has a ratio of 35% in the starting of the study and reached to 39% to which further reached to 48% in the next year. After it started to decline and touched a point of 37% which further touched a point of 11% only even higher than the industry.

CONCLUSION

The analysis of Profitability of the Indian Cement industry under study indicates that it was reasonably high in terms of Gross profit but weak in case of the pursuit of other standards. Various factors were responsible for the situation and the main reasons were overall economic slowdown with the adverse impact on Indian economy, increase in the input costs, fixed charges like interest and excessive charging of depreciation.

Though the economic reforms initiated by the then Finance Minister Dr. Man Mohan Singh in early nineties put a positive impact over the Indian Cement industry and both domestic as well as international demand for cement improved to enhance the market significantly. The decline in export and excess availability had not only affected the international prices but had an impact on the domestic prices as well.

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The domestic industry was experiencing a peculiar problem. It had been impacted by stagnation in domestic consumption due to reduction in governmental planned expenditure, lack of investment in housing and infrastructure sectors and additional capacity creation based on assumed growth in consumption which did not materialize.

Protection to the domestic industry has been to a large extent eroded by virtue of the agreement reached among the nations under the WTO treaty. International trades became unremunerative for countries not having adequate infrastructure facilities. The monetary policy, which determines the cost of money, had a major impact on the competitiveness of the industry.

The profit margin of the industry was thin as well as fluctuating in proportion to sales and the total asset turnover ratio of the industry was poor and it was the reason of lesser return on investment. The incompetent use of fixed assets, plant and machinery could be observed from the concerned turnover ratios affecting the profitability of the companies of this industry badly. One more thing should be taken care of that the profitability of the private sector companies was much better than that of public sector and government owned companies which was mainly on account of high operational and financial inefficiencies of these public sector companies. The financial operation ratio of industry was satisfactory but return on shareholders equity was not up to mark. To check the high operating costs, the cost control techniques should be used extensively and other steps be taken to reduce the operational costs, which will definitely increase the profitability.

For the growth of the domestic market, the industrial policy had to be framed in such a way that it generates more demand for Cement. Investment in infrastructure like railways, ports, highways and other key sectors like power, housing and petroleum refining had to get priority. Fiscal incentives in terms of excise and other levies need to be rationalised. The lower price of Cement will trigger demand and the loss of revenue in cement would be offset by additional volume. Producers were also looking for innovative methods to control the costs and to raise the quality level to be competitive.

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