

A Study on Ratio Analysis at Ultratech Cement Limited, Tadipatri

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ABSTRACT

To outset any business it is very important to have finance and success of the business entirely depends upon the proper management and applications of finance. It is essential to uphold a prevalence between two activities which can be done with the help of calculating different types of ratios like current ratios, quick ratios and debt coverage ratios etc. Every manufacturing sector requires competent use of inventory and tools to expand its products. This study explains that ratio analysis will help the management in estimate the future performance of the company. The scope of writing this research paper is to spread the logical usage of ratio analysis for analysis the financial performance of Asian Paints Ltd. In order to check the usefulness of operations and to resolve how well the manufacturing process is going to take place and use of ratio analysis to gauge its business transactions.

KEYWORDS: *current ratios, liquidity ratios, solvency ratios, profitability ratios*

INTRODUCTION

- The term ratio analysis refers to the analysis of the financial statements in the conjunction with the interpretations of the financial results of a particular period of operations, derived with the help of ratio.
- Ratio analysis is used to determine the financial soundness of a business concern.
- Ratio analysis helps to analyze Financial Statements to measure the success, failure, and progress of your business.

MEANING :

- Ratio analysis is the process of determining and presenting the relationship of items and group of items in the statements.
- Ratio analysis is one of the financial statements analysis tool which is used for analysing the past, present data and estimating the future.

INDUSTRY PROFILE:

India being the second largest cement producer in the world after China. Cement was produced for the first time in India in 1904 by South Indian Industries

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Limited Madras. Capacity increased to 502 MT by the end of 2018.

India's cement demand is expected to reach 550-600 Million Tonnes Per Annum (MTPA) by 2025. Among in large cement plants 77 are located in the sites of Andhra Pradesh , Rajasthan and Tamil Nadu.

COMPANY PROFILE :

Name of the organisation	: UltraTech Cement Limited
Founded	: 1983
Type	: Public
Head Quarters	: Mumbai
Location	: Bhogasamudram, Tadipatri mandal, Ananthapuram, AP-515411
Managing director	: K. K. Maheswari
Chairman	: Kumar Mangalam Birla
Products	: PPC, OPC, WHITE CEMENT, CEMENT
Website	: www.ultratechcement.com

OBJECTIVES OF THE STUDY :

- To study the liquidity position of UltraTech cement Limited.
- To study the operating efficiency of UltraTech cement Limited.
- To analyze the financial performance of UltraTech cement Limited.

NEED FOR THE STUDY :

- Ratio analysis is one of the key area for the purpose of financial decision making .
- Ratio analysis helps to summarize large quantities of financial data to make qualitative judgment about the UltraTech Cement financial performance and position.
- Ratio analysis helps to forecast the needs of the firm.

SCOPE OF THE STUDY :

The Study is confined to ratio analysis at UltraTech Cement limited, Tadipatri. The study is done for 5 years i.e., from 2015 - 16 to 2019 – 2020.

RESEARCH METHODOLOGY :

Secondary data:

The data is based on Secondary data. It is collected through the company Annual reports, company magazines, company website UltraTech cement Ltd.

WEBSITE : www.ultratechcement.com

TOOLS AND TECHNIQUES :

1. Liquidity Ratios
2. Activity Ratios
3. Profitability Ratios
4. Bar charts
5. Correlation

LIMITATIONS :

- The study is limited to UltraTech Cement ltd, Tadipatri.
- The study covers only the period of past 5 years that is from 2015 – 16 to 2019 – 20 .

DATA ANALYSIS & INTERPRETATIONS

RATIO ANALYSIS :

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions” and as “the relationship between two or more things”. In financial analysis, a ratio used as a benchmark for evaluating the financial position and performance of a firm.

Types of Ratios :

Several ratios, calculated from the accounting data, can be grouped into various classes according to financial activity of function to be evaluated. The management is interested in evaluating every aspect of the firm’s performance. They have to protect the interest is in the liquidity position or the short-term solvency of the firm; Long-term creditors are more interested in the long-term profitability and financial condition. IN the view of the requirements of the various users of ratios, we may classify them into the following categories.

Types of Ratios :

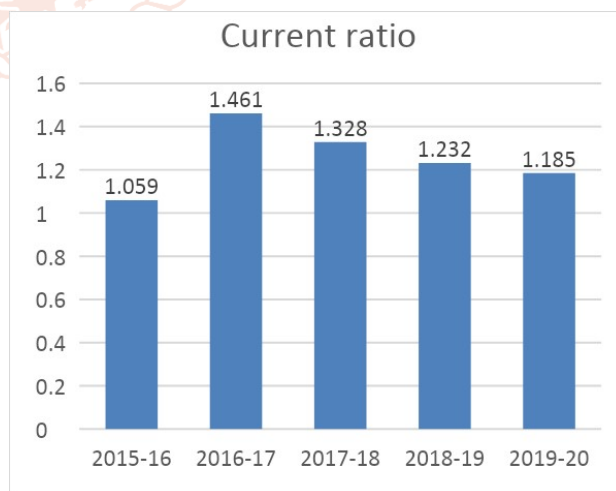
- Liquidity Ratios
- Leverage Ratios
- Activity Ratios
- Profitability Ratios

LIQUIDITY RATIOS :

a. Current Ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{current liabilities}}$$

Years	Current assets (Rs in crores)	Current liabilities (Rs in crores)	Current ratio
2015-16	388.65	366.90	1.059
2016-17	641.20	438.78	1.461
2017-18	701.25	527.86	1.328
2018-19	746.48	605.83	1.232
2019-20	805.05	678.99	1.185



INTERPRETATION :

The standard ratio of current ratio is 2:1. From the above graph , the current ratios are 1.059, 1.461, 1.328, 1.232, 1.185. The company has highest ratio in the financial year 2016-17 i.e, 1.461, due to increase inventory and sundry debtors in the year 2015-16

LEVERAGE RATIOS :

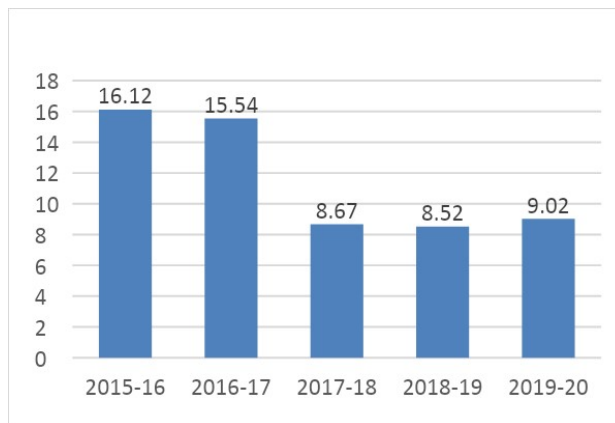
Debt Equity Ratio

Debt Equity Ratio =

Long Term Debts Shareholders Funds

TOTAL DEBT RATIO :

Years	Long Term Debts (Rs in crores)	Shareholders funds (Rs in crores)	Debt equity ratio
2015-16	862.55	1067.88	0.807
2016-17	864.48	1205.52	0.717
2017-18	885.64	1260.83	0.702
2018-19	984.21	1411.43	0.697
2019-20	905.47	1574.77	0.574



Interpretation:

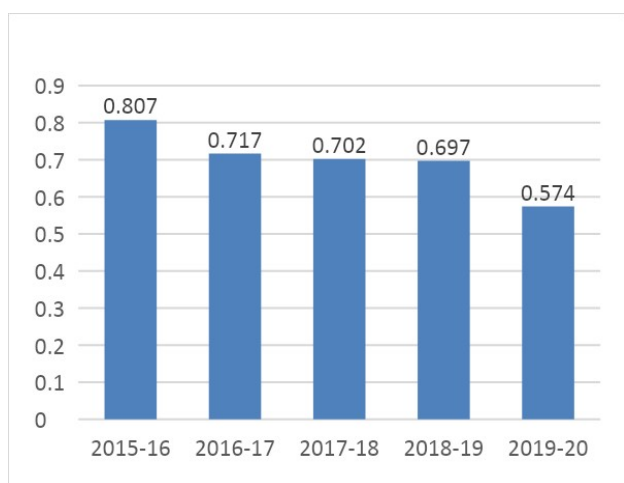
From the above graph the stock turnover ratios are 16.12, 15.54, 8.67, 8.52, 9.02. The ratio is highest in the financial year 2015-16 i.e, 16.12. This high ratio indicates that the company generates higher sales per unit of investment made in stocks.

PROFITABILITY RATIOS

Gross Profit Ratio

Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Net Sales}} * 100$

Years	Gross profit (Rs in crores)	Net sales (Rs in crores)	Gross profit ratio (%)
2015-16	959.48	1731.62	55
2016-17	948.35	1941.63	49
2017-18	841.11	1562.60	54
2018-19	838.41	1701.56	49
2019-20	845.58	1857.84	46



Interpretation:

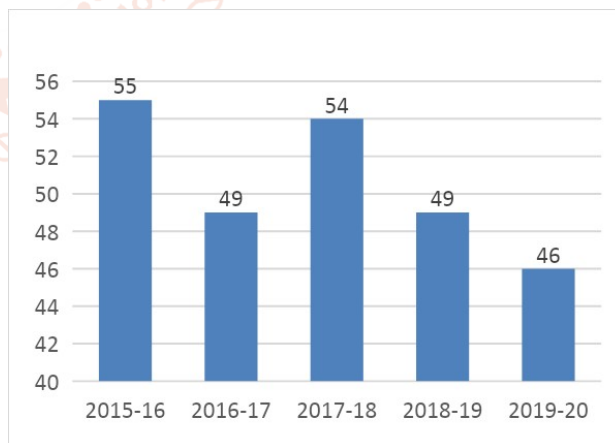
From the above graph the debt equity ratios are 0.807, 0.717, 0.702, 0.697, 0.574 and the ratio is highest in the financial year 2015-2016 i.e, 0.807 when compared to all other years.

ACTIVITY RATIOS :

Stock Turnover ratio

Stock Turnover Ratio = $\frac{\text{Sales}}{\text{Average Inventory}}$

Years	Net sales (Rs in crores)	Average Inventory (Rs in crores)	Stock Turnover Ratio
2015-16	1731.62	107.37	16.12
2016-17	1941.63	124.92	15.54
2017-18	1562.60	180.11	8.67
2018-19	1701.56	199.54	8.52
2019-20	1857.84	205.91	9.02



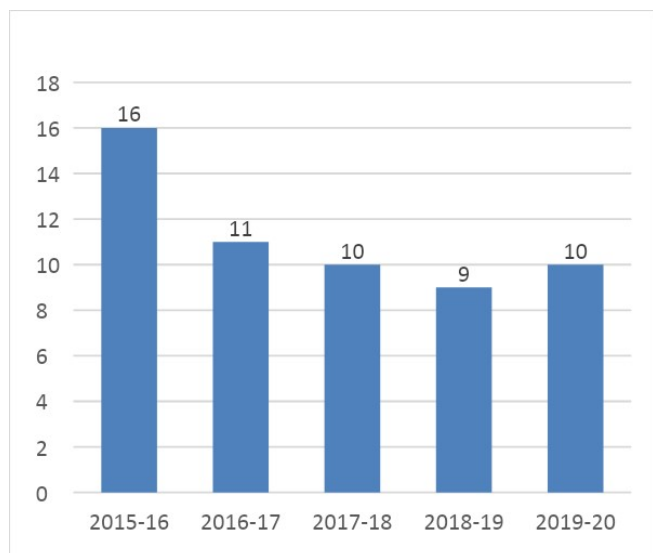
INTERPRETATION:

From the above graph the gross profit ratios (in %) are 55, 49, 54, 49, 46. The ratio is higher in the financial year 2015-2016 when compared to all other years.

Net Profit Ratio

Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Net Sales}} * 100$

Years	Net profit (Rs in crores)	Net sales(Rs in crores)	Net profit ratio (%)
2015-16	275.93	1731.62	16
2016-17	213.39	1941.63	11
2017-18	156.43	1562.60	10
2018-19	152.22	1701.56	9
2019-20	178.84	1857.84	10



INTERPRETATION:

The net profit ratios (in %) are 16, 11, 10, 9, 10. The net profit ratio is higher in the financial year 2015-2016 when compared to all other years.

FINDINGS:

1. The Current ratios from 2015-16 to 2019-20 are 1.059, 1.461, 1.328, 1.232, 1.185 respectively and it has not met the standard ratio 2:1.
2. The Inventory turnover ratios are 16.12, 15.54, 8.67, 8.52, and 9.02. The ratio is highest in the financial year 2015-16 when compared to all other years.
3. The gross profit ratios (in %) are 55, 49, 54, 49, 46. The ratio is higher in the financial year 2015-2016 when compared to all other years.

4. The net profit ratios (in %) are 16, 11, 10, 9, 10. The net profit ratio is higher in the financial year 2015-2016 when compared to all other years.

SUGGESTIONS:

1. It is suggested that the Liquidity ratios reveals more amount of funds are invested in current assets. This should be reduced as it represents idle investment.
2. It is suggested that the management must follow less time for debtor's collection with normal investment.
3. Long term solvency position of the company has to be improved by limiting amount invested by outsiders to the amount invested by the owners of the company.
4. It is suggested that there should be a proper control on the stock turnover.
5. The Net profits of the company are continuously decreasing in the nature. So there is an urgent need to raise the profits by increasing sales.

CONCLUSION:

From the study it is identified that the company financial position i.e., short term as well as long term is good as it achieved its standard norms. The company financial performance is satisfactory as well. The company is capable of converting its assets into sales.

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